# Seminar

## Part- two

## Contents

# THE ECONOMIC DEVELOPMENT OF INDIA

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For nearly three decades an independent India has been struggling with the development of a partially planned economy. Throughout these years there has existed a national consensus on four objectives : a high growth rate, national self-reliance, full employment and the reduction of economic inequities. The consensus has been affirmed most concretely in a series of five national plans that spanned the years from fiscal 1951 through 1977 and a draft sixth plan that extends through March 1983.

India now has to its credit such achievements as self sufficiency in grain supply and a substantial substitution of domestic production for imports in basic sectors. On the whole, however, India remains a case of stunted, sub-optimal growth, burdened as it is with the world's largest single national mass of poverty and unemployment. The World Bank estimates that in 1975 the poverty level population in India was 277 million, or 43 per cent of the total poverty-level population in a group of 36 poverty-stricken countries. In this article I shall review the performance of India's economy with regard to the four objectives of Indian economic policy. Then I shall consider the inevitable question : Where does India go from here?

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Over the five National Plan periods spanning the fiscal years 1951 through 1977 the Indian economy recorded an average annual growth rate of 3.65 per cent. A rate of growth of 5 per cent or more was targeted repeatedly, and growth rates higher than the long-run average were in fact achieved for short periods, including the four years of the Fifth Plan, from fiscal 1974 through 1977. In other plan periods, however, the economy grew at the long-run rate or a lower one. The low rate of long-run growth has allowed only a very slow growth of per capita income : less than 1.5 per cent per year.

The Indian growth rate has been low in comparison not only with the targeted growth rates but also with the rates achieved in most other countries. In as many as 90 nations out of 121 the rate of growth of the gross national product (G.N.P.) per capita exceeded that of India for the period from 1960 through 1977. All that can be said about the growth rate achieved in India is that it is more than twice the growth rate the Indian economy recorded in the final 47 years of British rule, from 1900 to 1947.

It is in the substitution of domestic production for imports and the resulting progress toward economic self-reliance, the second objective of Indian policy, that Indian planning has had the most success. Over the 23 year period ending in March, 1978 (the Indian fiscal year runs from April 1 through March 31), imports fell to a level of between 2

and 21 per cent of total supply in 21 industrial sectors, including petroleum products, basic chemicals and fertilizer and many categories of machinery. They exceeded 25 per cent of the total supply in only six industrial sectors. Examples are oil and gas, organic heavy chemicals and some categories of machinery. This development is the outcome of an explicit long-term policy to establish an adequate indigenous capacity in all the basic sectors, particularly metals and machinery, heavy chemicals, energy and transport and communications. The policy has been critized both in India and abroad because of its alleged association with the neglect of rural development and the production of consumer goods. It has also been attacked for having created a sheltered high-cost industrial sector.

On balance, however, the policy has been beneficial. For one thing it has made many of the goods produced by India cheaper in the long run than their imported counterparts. Steel is an important case in point. European steel export prices in December, 1978, implied Indian prices ranging from 2,850 to 3,050 rupees per ton, but the domestic price of comparable product categories (excluding taxes) were lower by 44 to 61 per cent. The resulting relative cheapness of many Indian engineering products (the term embraces machinery and even entire plants), along with the emergence of new markets in Asia and Africa, has made it possible for Indian exports of such products to record an impressive growth in

recent years. In fiscal 1978 they amounted to 6.85 billion rupees and had become the single largest group in the Indian export bill, accounting for more than 12 per cent of total exports. In fiscal 1956 engineering products were less than 1 per cent of the exports. The largest exports were farm products, including tea, jute manufactures and cotton textiles.

The policy of import substitution also generates the basic industrial capacities that are the pre-requisites of growth in all other sectors. The ratio between the growth rates in the consumer-goods and other sectors of an economy is determined by the overall pattern of transactions between the sectors, which are reflected in the input-output co-efficient matrix for that economy (see The World Economy of the Year 2000, by Wassily W. Leontief, page 206). A significantly higher growth rate in the consumer-goods sector and a lower growth rate in non-consumer goods therefore can be projected only if it is assumed that consumer goods can be produced without non-consumer goods or that all the required non-consumer goods can or should be imported or that there is an Indian input-output matrix radically different from the one Indian planners use. None of these assumptions can be sustained.

The contention that there has been excessive investment in capital goods and infrastructure is belied by the simple fact that shortages of coal, cement, steel, non-ferrous

metals, fertilizer, power and transport persist in spite of substantial growth in the basic industrial sectors. On the other hand, the lack of purchasing power by the poor has already generated a grain surplus, and whenever drought reduces the income of even the farm households with middle and large holdings, many consumer-goods industries suffer a recession.

It was inevitable in any case that India, as a large subcontinental economy with vast natural resources, manpower and market potential, should strive for independence in basic economic sectors. Other subcontinental economies, including those of the U.S. and the U.S.S.R. did the same in the crucial phase of their own economic growth. The critics of the strategy of self-reliance forget that a significant fraction of industrial growth in all developed economies has been due to the substitution of domestic production for imports. Even in export-oriented Japan 38 per cent of the net output of industry from 1914 through 1954 (over and above industry's proportion of all output in 1914) was due to import substitution. Only 6 per cent was due to increased exports.

One of the most disturbing aspects of economic development in India is that the volume of unemployment keeps growing, contrary to the third objective of Indian policy. In 1978, the most recent year for which the information is available, it stood at 16.85 million man-years for people

between 15 and 59 years old. Moreover, the modern industrial sector, with 25 years of planned growth behind it, still employs only 26.5 million workers, or 9.7 per cent of the work force. During the decade ending in 1978 it provided jobs on the average for only .75 million new workers per year, or 11.5 per cent of those who entered the work force. Even if this yearly absorption is doubled to 1.5 million, which is clearly impossible in the near future, policy makers will still have to find ways to give employment to five million other young people who reach working age every year. At present India's young are drifting into unemployment or underemployment at low incomes. The other side of limited absorption in the modern sector is the remarkable phenomenon, unique in the history of development, that for the past seven decades in India the share of agriculture in the work force has not declined. It was 72 per cent in the census of 1911 and 74 per cent in the census of 1971. Survey data suggest that it is not much lower now.

As for the equitable distribution of income and assets, the fourth of India's objectives, again the picture is gloomier than it is almost anywhere else. The present poverty population of India is estimated to be 309 million, or nearly half of the total population. Poor households are counted as those having a per capita monthly consumption of less than 65 rupees (about $ 8) in rural areas or 75 rupees (about $ 9) in urban areas. Montek Ahluwalia of the World Bank has

estimated that the number of rural poor decreased from 53 per cent of the rural population to 42 per cent in the early 1960's, rebounded to 58 per cent in the last 1960's and declined again to 48 per cent by 1974. The ratio has thus shown no significant trend. The total number of rural poor continues to grow by about five million per year, however, because of the overall growth of the population.

The distribution of rural assets actually worsened somewhat between fiscal 1961 and 1971. The share of the poorest 10 per cent of Indian households in the assets of India fell from a mere 2.5 per cent to 2 per cent while the top 10 per cent continued to account for 51 per cent. And in spite of massive legislation the redistribution of land has been negligible. Only 1.5 million acres have been redistributed to date, out of a potential, legally distributable surplus of at least 5.5 million acres and possibly 20 million. In the urban corporate sector the concentration of capital has been proceeding apace. Between 1969 and 1976 the assets controlled by the top 20 business houses increased from 24.3 to 54 billion rupees. The latter figure implies that these houses controlled 64 per cent of the total productive capital in the private corporate sector.

The mobilization of resources that has contributed to India's industrialization is impressive by any standard. From the First Plan to the Fifth, India managed to step up its gross investment rate from 10.8 per cent of the gross

domestic product (G.D.P.) to 20.9 per cent. Meanwhile the gross domestic saving rate was doubled from 10.4 to 21.3 per cent. Rates on this order are typically achieved only by nations with a per capita income of $400 to $500 in 1964 U.S. prices. In India the rate was attained although the per capita income in the mid-1970's was less than $100 in 1964 U.S. prices. As a result of this achievement the net inflow of resources from abroad declined from its peak of 3 per cent of G.D.P. in the Second Plan to barely .8 per cent in the Fourth. And in the years of the Fifth Plan several factors - the accelerated growth of exports, a domestic recession and the receipt of large remittances from Indians living abroad combined to produce a negative resource inflow: a rise in foreign-exchange reserves to the all-time peak of 73.57 billion rupees at the end of March, 1979. This amount was 8 per cent more than the cost of the imports for all of the preceding fiscal year.

The rate of investment has been raised in India by the tapping of many sources. One of them is taxation. The ratio of government tax revenue to the G.N.P. has been raised from a mere 5 per cent in fiscal 1950 to 18.7 per cent in fiscal 1978. The latter is high for a low-income nation. About 38 per cent of what the central government spends now goes into capital formation, and total capital formation by the government (central and state) has recently averaged 41 per cent of all capital formation. This can hardly be regarded

as excessive for a poor, developing country, although the private sector understandably criticizes it as a drain on private investment.

Another source of public investment is the nationalized financial system. (Almost all the financial institutions have in fact been nationalised). The system is compelled by a set of laws and guidelines to lend a high proportion of its funds to the government. From the First Plan to the Fourth as much as 60 per cent of the total transfer of resources from non-government sectors to the government came from the financial institutions.

The two other sources of finance for government investment, namely deficit financing and foreign aid, have been tapering off. Deficit financing, which accounted for 20 per cent of public expenditure in the Second Plan, accounted for only 13 per cent in the Fifth and is projected to be only 4 per cent in the Sixth (although it may turn out to be much higher). Foreign aid, which in some years had accounted for as much as 84 per cent of public expenditure, accounted in the Fifth Plan for only 14 per cent.

When India looks ahead on the basis of trends already established, it is in agriculture that the outlook is most promising. During the 1960's the population grew at an average annual rate of 2.24 per cent. The rate for the 1970's will be known only when the results of the Census of 1981 are available. Interim data suggest, however, that the growth

rate may have decelerated to 2.00 per cent by 1974 and then to 1.97 per cent by 1976. The growth rate now being used even for "pessimistic" official projections for the years from 1981 through 1991 is 1.7 per cent. Meanwhile the growth rate in grain production from fiscal 1949 through 1977, excluding two years of extreme drought in the mid-1960's, has been 2.57 per cent. The rate for agricultural production overall has been 2.60 per cent. If these rates or even slightly lower ones are maintained, agricultural production per capita should continue to rise.

On the other hand, grain consumption per capita has been falling. It fell by 9 per cent during the period from fiscal 1961 through 1973. The reasons for the decline are of course different for those who are poor and for those who are not. For the nonpoor it is the normal result of an increase in income per capita. For the poor it reflects a persistent lack of purchasing power. The rectification of this lack would not, however, cause a shortage. Even if the per capita grain consumption of the bottom 25 per cent of the population, who are known to be suffering from severe malnutrition, were raised to the level of the top 25 per cent, the current grain reserve and the prospective production of grain would easily meet the additional demand.

There are many reasons to think the agricultural growth rate can be kept at 2.5 to 2.6 per cent per year over the next two decades. First, the amount of land in India that

can be brought under irrigation can still be doubled, from 52 million hectares to 112 million, or almost two-thirds of India's present cropped land surface. And for the 30 per cent of India's agricultural land that lies in a high-rainfall zone the problem is the inefficient use of water, not an overall deficiency. In the remaining semiarid zones hope lies in drought-resistant crops, ridge cultivation, land sloping, the recycling of scarce water and animal husbandry.

Second, the yields that have been realized on farmers' fields under a National Demonstration Program are many times the actual average yields. Even in Punjab, the Indian State where agriculture is most advanced, the yield of wheat can be doubled. In other states it can be raised three to seven times. Rice yields in the monsoon season can be raised two to 13 times, rice yields in the dry season two to three and half times, jowar (Indian millet) yields two to 11 times, maize yields two to 10 times, groundnut yields three and half times and potato yields one and a half to five and a half times.

Other agricultural frontiers lie in many directions : high-yield seed for non-cereal crops, two- and three-crop systems, the recovery of damaged soil, the recycling of organic waste, biological fixation of nitrogen, genetic and chemical control of weeds and pests and the exploitation of cheaper and renewable sources of energy such as biogas and sunlight. In most parts of the country the productivity of

animal husbandry, fisheries, forestry and horticulture can also be raised many times. India now has an autonomous and well-organized agricultural research and extension system that can be trusted to deliver the means to exploit the various possibilities.

For India the gloomy prediction of a growing gap between food demand and food supply, a prediction that some international agencies publicize regularly, seems in fact to have no basis. Only in the event of two or three successive droughts that exhaust the nation's grain reserve would India have to draw on world reserves, and then only to a small extent.

In industry the outlook seems much bleaker in the light of four economic indicators. They are the rising ratio of investment to output, the low rate of return on investment in the public sector the low rates of capacity utilization in key sectors and the long gestation periods for new capacity. All four, of course, are highly interrelated.

In the Indian economy as a whole the ratio of added investment to increases in output has risen steadily from 3.6 in the First Plan to 6.2 in the first three years of the Fifth Plan. Surely some of the increase is due to the changing mix of output and techniques and some is due to droughts and to industrial recessions. A significant part, however, can be attributed to sheer inefficiency. The increase explains

why the ratio of investment to G.N.P. rose from 11 to 21 per cent from the First Plan to the Fifth whereas the growth rate increased only marginally, from 3.6 to 4.8 per cent. If the ratio of capital to output had remained at the First Plan level, the current rate of investment would be generating a growth rate close to 6 per cent.

The low rate of return on investment in the public sector is demonstrated by the analysis of balance-sheet data by the Reserve Bank of India, which shows that in recent years (fiscal 1970 through 1975) the private corporate sector has been averaging a profit rate of about 11 per cent of net assets. In contrast, central-government companies have averaged 4.4 per cent and state-government companies have averaged 2.2 per cent. There are some valid reasons why the return on public-sector investment should be somewhat lower than the return on private investment. Administered prices for certain commodities and services have often been held below costs as a matter of policy, to keep inputs cheap for other industries. This has been the case for irrigation water, electricity, coal, steel, fertilizer and even petroleum products. Again, however, the main reason for low returns on public investment seems to be inefficiency. Instead of generating large surpluses the public sector has become a drag on resources. People have to be taxed at higher rates year after year to finance the mounting losses and new public investment in public enterprises.

The rate of capacity utilization in India has recorded a zigzag course. From 1970 through 1978 it averaged 78 per cent in all industries. In three key sectors, however, (basic metals including steel, nonelectrical machinery and transport equipment, which are dominated by public enterprises) it was 65 to 68 percent. And in electricity generation, which is almost entirely in the public sector, it was only 44 per cent. Figures for the single fiscal year 1977 show the same pattern. In 17 sectors where public and private ownership coexist capacity utilization was 80 per cent in private units and 65 per cent in public units. And in 18 sectors where the government operates the entire capacity the utilization was only 64 per cent.

Finally, the long lag in the construction of new industrial capacity in important sectors cause the escalation of capital costs. In the steel sector, for example, two major projects originally scheduled for completion in December, 1976, are now expected to be completed four to six years late. The cost is expected to rise from 7.46 billion rupees to 23 billion. In the railway sector the completion of two important gauge-conversion projects has been delayed by three to four years and four electrification projects by four to five years. Two major port projects have been completed six years late. The construction of a number of power-generation and transmission projects is currently running six to 20 months late. The total cost of 28 major irrigation projects has

gone up more than three times, from 15 billion rupees to 49 billion, because of lags in construction.

These facts suggest a severe man-made managerial crisis that is keeping down India's overall industrial growth. For example, in fiscal 1979 industrial growth could have been 7 to 8 per cent of the supplies of fuel, power and transport had been sufficient to allow fuller utilization of capacity. That is in fact the industrial growth rate recorded by India in the Second Plan and Third Plan periods. It is the minimum the nation needs for the balanced development of all sectors. It is also the rate the nation could maintain over the next few decades under better management.

The stagnation due to bottlenecks in the supply of fuel, power and transport is compounded by a growing crisis in industrial relations. More than 20 million man-days of work have been lost each year for the past three years owing to industrial disputes. (The record, however, was 40 million days in 1974). And incidents of industrial violence and sabotage have continued to increase.

For some of these problems there are obvious answers. In the coal and power sectors competitive dualism can be tried; a part of the capacity in these sectors can be operated privately under management contract.

To promote industrial peace national guidelines for wage contracts must be established. They should link increases in wages to increases in objective indexes of performance in every industry and to increases in cost-of-living indexes as determined by expert bodies. Whenever collective bargaining fails, arbitration must then be compulsory. The arbitration judgments should conform to the national guidelines, and they should be quickly delivered and rigorously enforced.

The greatest single constraint on industrial growth in India is bureaucratic overcontrol. Critical materials are rationed, credit is rationed, foreign exchange is rationed, all large investments are licensed after prolonged processing, labor laws are overprotective, taxes are numerous and complex and tax rates are high, all key prices are centrally administered, capacity expansion (and even full capacity use) is restricted, hundreds of items are reserved for small units or fixed allocations of capacity are made between large and small units, investments by large business houses are severely limited, foreign collaborations are licensed and there are restrictions on the siting of industries. Corps of generalist civil servants, still trained in the British literary-historical-gentlemanly tradition, administer these supposedly socialist controls, and armies of inspectors collect kickbacks to allow the producers to produce. That Indian entrepreneurs manage to run their part of the industrial production system at all under these circumstances is truly wondrous.

Some of the regulations are of course socially necessary but many are utterly dysfunctional and should be dismantled or simplified on the basis of the recommendations made by a commission appointed for that purpose. Indian policy-makers must realize sooner or later that the 30-year-old control system has delivered neither high growth nor reduction in poverty or in distributive inequality. A more relaxed system should therefore be given a trial. At the same time public-sector management can be improved simply by transferring it from the generalist civil servants to autonomous corporations run by professional managers and technocrats. At least 15 of the 142 central-government corporations have managed to remain autonomous and professional, and they have a good record of performance. They operate in the fields of international aviation, heavy electrical machinery, oil and gas, fertilizer, state trading and agricultural finance.

To be sure, supply bottlenecks, labor problems and poor management are not the entire story. The deficiency of purchasing power has also limited the economic growth of the country. Recent consumer-survey data show that the poor half of the Indian population accounts for only 19 per cent of aggregate consumer expenditure. The non-poor half controls the remaining 81 per cent. The contrast is even more striking in food and clothing. The poor half spends more than two-thirds of its budget on food, yet its share in the total

expenditure on food is only one-third of the total. In the case of clothing its share in the total expenditure is as low as 9 per cent. With such a skewed distribution of purchasing power the emergence of food surpluses in the midst of mass mal-nutrition and of slow growth in the textile and certain other consumer industries is not surprising. The simple truth is that the poor half of the Indian population has enormous unsatisfied needs but is hardly in the market.

This leads to the subject of direct anti-poverty policies. After a long period of trial and error India today has the knowledge and the field experience acquired in about half a dozen successful approaches to the reduction of rural poverty and unemployment on a substantial scale. The foremost of these is the recent program of accelerated irrigation (2.5 million hectares per year) and the promotion of the use of fertilizer. The program directly absorbs at least .44 million man-years of rural labor per year. (An irrigated and fertilized hectare requires an average of 122 man-days of labor per year, or 48 days more than a dry hectare). It will be necessary, however, to ensure that small and economically marginal farms get their due share of new canal water, pump sets and fertilizer.

The Second promising program is the Employment Guarantee Scheme (E.G.S.) of the State of Maharashtra, which is generating 160 to 180 million man-days of employment (or 533,000 to 600,000 man-years of 300 days each) for the poorest rural

people at a minimum wage. More than four-fifths of the E.G.S. budget is now spent on irrigation, conservation and afforestation. The E.G.S. approach should be extended to all parts of the country, and particularly to the high-poverty belts, as soon as possible. The high-poverty belts occupy the central states, the western arid lands and the Himalayan periphery in the north. Only under the philosophy of E.G.S. does the state accept the moral, legal, technical, financial and organizational responsibility to provide guaranteed employment at poverty-line income to the poor within a definite period of time. The current unemployment in India could all be absorbed at a direct cost of 30 billion rupees per year, which is less than a fourth of the present annual plan outlay.

For promoting self-employment the Antyodaya (Redemption of the Last and the Lowest) approach of the state of Rajasthan is the most promising. Within two years under this scheme 160,000 of the poorest families have acquired income-yielding assets such as pumps, dairy animals, sheep, bullock carts, camel carts, looms and sewing machines.

A fourth approach with promise is the scheme of the Small Farmer Development Agency, under which six million farmers with holdings of less than two hectares have received loans preferentially. In many districts where the scheme is well administered hundreds of thousands of farmers have risen to the poverty line. If the scheme were expanded to

cover four million additional farmers every year, the entire marginal farm sector would be covered in only a decade.

A fifth approach is the Food-for-Work-Program (F.W.P.), which generates employment by paying for it partly or even entirely in grain. A conservative norm for the program would be one man-year of labor for each ton of grain paid out, and in a year of normal climate four million tons could be disbursed (twice the level of disbursement in fiscal 1979), creating employment for four million people. In drought years the disbursements could be increased further. The Food-for-Work Program is the best way to absorb the rural assets and improve the food intake of the poorest. Indirectly it sets an effective floor to the rural wage rate.

A sixth approach is Operation Flood. The flood is a flood of milk. Cattle are artificially inseminated to produce better breeds. Their milk is bought by the government at an established price. The milk is chilled, bottled and sold in the cities. The dairy scheme Flood II, a proved success in the states of Gujarat and Rajasthan, is now programmed to have covered four million milk-producing families by fiscal 1978 and 10 million by fiscal 1985. The covered families, with a minimal land base, have been able to rise to the poverty line within three years.

These six schemes together have the potential to generate about five million man-years of new employment every year, in addition to employment that other labor-intensive

programs may create. Employment on that order could absorb almost the entire annual addition to the rural labor force. Eventually the programs could cover the bulk of the poor. Whether the programs will in fact be properly extended depends on the degree to which the poor are effectively politicized and unionized.

The overall prospects for India's economic development remain unknown. The resources and the knowledge to eradicate deprivation exist. The failure to use them is purely managerial. The Indian political system has simply not produced a leadership that is knowledgeable and sincere enough to break the syndrome of slow growth and growing poverty. A revolution is unlikely in India, and if one does come about, it will probably bring to power a feudal, non-communist dictatorial junta even more ignorant and insincere than the elected representatives. Like many African, Asian and Latin-American dictatorships, an Indian dictatorship might perhaps jack up the growth rate, but poverty will keep growing too. The Indian problem of poverty is just too vast to be solved by the average dim-lit dictator.

Economics - "the dismal science" - can project for India either the established trend of slow growth and growing poverty or the many possible scenarious of rapid growth and the eradication of poverty. Which scenario in fact materializes will depend on the shifts in leadership that may occur. These are in the lap of the gods.

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WORKING PAPER

Working Paper No.3

The New Development Strategy - An Appraisal

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Working Paper No.3

# The New Development Strategy - An Appraisal

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# The New Development Strategy - An Appraisal

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## I

The Draft Five Year Plan 1978-83 announces not only a new Plan, but also a new Strategy of Development. This was to be expected. After all, the initial documents relating to the Fifth Five Year Plan had spoken of the "historic inevitability" of a new plan strategy (of a direct approach to reducing poverty) because the Plan was being formulated "by a Government that had won a massive mandate from the people" both in the parliamentary elections of 1971 and the State elections of 1972. And the Draft Five Year Plan 1978-83 has been formulated on behalf of a Government which brought about India's peaceful revolution (although only its first stage) and won a massive mandate from the people in 1977 in return for the promise to provide freedom and bread in a new socio-economic order. The new Plan is part of the effort to usher in the new era. There is, thus, "historic inevitability" about the New Development Strategy.

According to the Draft an effective strategy for development requires that :

(a) The objectives to be achieved are clearly formulated, and where there are multiple objectives, they are ranked in order of importance; and if objectives conflict, the trade-off between them should be determined.

(b) Resource allocations are made to subserve the priorities indicated by the objectives and these allocations are backed by appropriate economic and social policies.

(c) The selected strategy is pursued consistently over a period of time sufficient to establish its success or failure.

Following this preamble, the objectives themselves are spelled out as follows:

... The principal objectives of planning should now

be defined as achieving within a period of ten years:

(i) the removal of unemployment and significant under-employment;

(ii) an appreciable rise in the standard of living of the poorest sections of the population;

(iii) provision by the State of some of the basic needs of the people in these income groups, like clean drinking water, adult literacy, elementary education, health care, rural roads, rural housing for the landless and minimum services for the urban slums.

While the Five Year Plan 1978-83 will aim to achieve these ob-objectives as far as possible, it is stated also that they should be obtained while achieving a higher rate of growth of the economy than in the past, moving towards a significant reduction in the present dis-parities of income and wealth and ensuring the century's continued prog towards self reliance.

The Draft Plan's objectives are very clearly stated indeed, but there is hardly anything new in them except, perhpas, an explicit re-cognition, long over due, that "growth" per se will not be and cannot b the aim of planning. And the reasons for it are also indicated:

> It has generally come to be realised that the concept of growth rates as a measure of economic development has considerable limitations. The rate of growth measures the expansion of the size of the economy over a particular period but not necessarily its development potential for the future nor does it measure the welfare of the masses of people, since it is unrelated to the distribution of the national income as between different classes .... While it is true that a more rapid expansion of the eco-nomy will generally make it easier to increase the wel-fare of the poor, it is not necessarythat the allocation of resources required to reach the highest achievable rate of growth of the economy at any point of time will be optimal from the point of view of the desired distribution of income.

Whether the de-emphasis on growth per se constitutes a departure from old strategies, in particular the strategy of the garibi hatao Draft Fifth Five Year Plan is a moot question, but the

main features of a new strategy are not to be sought in a statement of aims, because, again as the Draft rightly points out:

> These aims - implicit in all our plans, but more explicitly stated in the later formulations of our development strategy are universally accepted by the Indian people; they are the achievement of full employment, the eradication of poverty and the creation of a more equal society.

If the goals themselves are universally accepted, the strategy must be appraised in terms of a more detailed specification of their implications and of the manner in which they are to be approached and achieved. One of the main weaknesses of planning and of economic policy in general in our country has been to confine strategy which is essentially related to the nature of operations to a mere statement of goals, particularly long terms goals. Obviously, there can be no strategy without a statement of goals but a strategy limited to an articulation of goals is vacuous.

For an appraisal of the "New Development Strategy" we must, therefore, look for details. And here there are some welcome departures in the Draft. Of these the most striking is the assessment of India's economic development during the quarter of a century of planning, with which the Draft begins, and which leads to the candid conclusion that "the most important objectives of planning have not been achieved" and that "the most cherished goals seem to be almost as distant today as when we set out on the road to planned development". The details of this assessment are important.

First, over a period of a quarter of a century a stagnant and dependent economy has been modernised and made more self-reliant, but the number of unemployed and underemployed are still very high and more than 40 per cent of the population today lives below the poverty line. Secondly, agricultural output has risen throughout the period, but per capita agricultural production has remained stagnant. Thirdly,

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India's industrial capacity has been expanded and diversified with capital goods production showing impressive increase and the country becoming self-sufficient in all consumer goods. Along with these the concentration of economic power has increased more rapidly. Also the pattern of industrial development that has emerged reflects the structure of effective demand, which in turn is determined by the distribution of income. An unduly large share of resources is thus absorbed in production which relates directly or indirectly to maintaining or improving the living standard of the higher income groups. Fourthly, the development of agriculture and modern industry has stimulated the growth of banking, insurance and commerce. But the major beneficiaries, especially of the banking system, have been the wealthier part of the population in both the urban and rural areas, and the vast majority have barely been touched. Fifthly, while the infrastructural facilities for production and in services like education and health have increased, much of the benefit from these have accrued to the relatively affluent sections. Sixthly, although industrialisation has proceeded rapidly, unemployment still remains a large problem and the hope expressed in the revised Fifth Plan that at least the increments to the labour force could be absorbed in gainful employment has not been realised. Seventhly, although output has increased, poverty and inequalities of a staggering nature still continue. On the basis of the basic nutritional norm, 48 per cent of the people in rural areas and 41 per cent in urban areas, together constituting a massive 290 million are reckoned to be below the poverty line in 1977-78. Also, the analysis of consumption expenditure shows that in 1973-74 the lowest 20 per cent accounted for 9.5 per cent of total consumption in rural areas while the highest 20 per cent accounted for 38 per cent. For urban areas the corresponding figures were 9.2 per cent and 40 per cent. Similarly, it is now documented that the bottom 20

per cent of rural households each having less than Rs.1,000 of assets account for less than 1 per cent of rural assets, while the top 4 per cent with asset-values of Rs.50,000 or more own over 30 per cent.

The Draft Plan's assessment of the past is, thus, not in terms of the usual planning exercises of appraising the target achievements of the preceding periods, but essentially in terms of the responses of the economic system and its components to the plan efforts. This is as it should be. For, in an economy that is not totally planned, an evaluation of planning cannot be solely in terms of its direct impact. What is important is the impact of planning on the system as a whole. Does planning give the economic system the sense of direction that social policy, as spelled out in the goals of planning indicates? This must be the basis of evaluating of the performance of the past, or of the strategy for the future.

II

With these preliminary observations we can turn to the specifics of the new strategy itself. They consist of four major shifts: from non-agricultural activitiy to agriculture; from large scale industry to village and small scale industry; from urban centres to rural areas; from the non-poor to the poor. These shifts are thought necessary because each one is desirable in itself and also because overall they contribute to the main objectives of the Plan, particularly to its thrust on employment generation.

We shall first make an assessment of the sectoral shifts themselves. Regarding agriculture, the Draft says:

> This sector will receive the highest priority, special attention being to the uplift of the small and marginal farmers and the landless labourers,

especially the scheduled caste and scheduled tribe families. The strategy for crop production will be to increase the area under irrigation, gross cropped area and cropping intensity and ensure larger application of inputs. This will be backed by improved agroeconomic practices for higher efficiency through development and propagation of better seeds, a strengthened extension system, assured availability of credit and improved facilities for marketing storage and processing. Land and tenancy reforms and consolidation of holdings, an important pre-requisite to good water use, will be vigourously pursued. A policy of optimal land use will be adopted, involving integrated watershed management which covers measures for flood control, drainage, reclamation and reshaping of land, mixed cropping for marginal land and a silvipastoral approach for areas with low rainfall. Special attention will be paid to increasing the area under oil-seeds, pulses and cotton, and the continuance of price incentives.

What is envisaged, therefore, is a programme informed by a noble social philosophy of support to the weaker sections, and to be carried out through technological improvements, institutional changes and economic incentives. Of these the emphasis is clearly on the technological aspect, in particular on increasing irrigation facilities and on mixed farming in an effort to create a viable economy of peasant farmers whose present economy is subsistence farming with marginal investment. The accent is also on what is referred to as a "comprehensive approach", not only incorporating technology, institutions and services, but also area level planning to recognise local needs and utilise local resources.

The shift from large-scale to village and small industries is seen as a logical implication of attaching the highest priority to tackling the problems of employment and poverty and providing minimum needs. It is also related to the broader social philosophy for it is stated: "Experience shows that people are anxious to become self-employed and work hard provided they are given the requisite assistance financial

raw materials and guidance in areas like marketing and technology". The shift from large to small scale productions is to be achieved by restricting the investment in the large, by reserving areas of production to the small, by the deliberate direction of science and technology into the service of the small and through a coordinated programme of fiscal and other measures.

The shift from urban to rural areas, again, is partly a reflection of the overallssocial philosophy underlying the Plan, but mainly a corollary of the emphasis on agriculture and village industries. Further, considerable emphasis is given to the development of rural infrastructural facilities and to stimulate economic activity in the rural areas.

The shift from the non-poor, of course, has become the main plank of our socio-economic policies in recent times, at least as far as intentions go. From time to time we have also been discovering "sound economic" arguments to support these intentions. The garibi hatao Draft Fifth Plan, for instance, rigorously demonstrated how a shift of expenditure from the top 30 per cent to the bottom 30 per cent would reduce the demand for imports and thus contribute significantly to our cherished economic objectives of self-reliance. Now that a reduction in imports is not particularly necessary and the poor continue with us in large numbers, a new economic argument has been supplied to do good to the poor. The calculation this time is that the consumption of the poor gives support to labour intensive technology so that "every million rupees of consumption transferred from non-poor to the poor will generate 20.2 additional person years of employment". It is expected that shift from non-agriculture into agriculture and from large scale industry into small scale industry will naturally bring about a shift from the non-poor to the poor also. Further there is the Revised Minimum Needs programme. The Fifth Plan's list of basic needs to be provided

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through public expenditure, viz., supply of drinking water, provision of house sites for the homeless, village access roads, elementary education to the rural poor, provision of rural health services, extension of rural electrification, environmental improvement of slums and nutrition for the undernourished - is to be extended to include adult education also.

For the New Strategy, thus, there is a clear formulation of objectives and there is no apparent conflict among them so that questions of trade off do not immediately arise. In appraising the strategy, therefore, the next question is whether "resource allocations are made to sub-serve the priorities indicated by the objectives" and whether "these allocations are backed by appropriate economic and social policies". Both these aspects have been touched upon in the Draft. The former is based on the formal consistency model, details of which are not contained in the Draft. However, it is pointed out that in building the model particular care was taken to see that the model served not only to indicate the overall sectoral relationships, but also to achieve the specific objectives of the Plan.
Thus:

> In building the model particular attention was paid to the analysis of production possibilities and input requirements in agriculture. The employment objective was reflected in the special treatment of certain labour intensive village and small industry section and the detailed calculations of employment generation. The requirements of goods for consumption were estimated separately for rural and urban areas, and for the poor and non-poor, so that the implications of the development strategy for production planning are fully taken into account. The requirements of goods for investment allowed for the new pattern of investment outlays.

The results of these exercises are reported in the Draft in terms of production targets for a large number of sectors, the allocation of outlay among the sectors, the overall financial resource position

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etc. In the absence of the details of these technical exercises it is not proper to attempt to evaluate them. In any case, it is reasonable to assume that the Planning Commission has at its disposal adequate expertise and computational facilities to produce a set of numbers which are at least consistent with the objectives spelled out.

But, as the Draft itself admits the weakness of planning in our country has not been primarily lack of internal consistency of a technical nature. After all, the Second Five Year Plan had a brilliant strategy and an internally consistent programme to bring about full employment in the country within a decade or sonner. And the garibi hatao Draft Five Year Plan made a solemn pledge to banish poverty from this land and to curb the consumption of the top 30 per cent to level up the incomes of the bottom 30 per cent. It also produced a sophisticated model and generated a mass of figures to show that it can be done, in terms of arithmetic, at least.

To crucial issue, then, in a New Development Strategy is not its objectives for they are only re affirmations and specifications of universally accepted goals; it cannot be the internal consistency of its technical calculations, for that can be easily produced. The economic and social forces available to implement it are the key factors in understanding and evaluating a development strategy.

Here again, the Draft is quite explicit about what needs to be done to achieve its main objective.

> In a developing economy the instrument of taxation alone is ineffective in reducing disparities in income and property. Therefore, a variety of other redistribution measures are necessary. These should influence, first of all, the existing distribution of assets, particularly agricultural land, urban real estate and corporate property. Secondly, public sector operations should steer the distribution of essential commodities, infrastructural facilities and social services in

> favour of low-income consumers.
> Thirdly, on the production side, the share of small farmers and small industry enterprises in institutional credit and in the supply of material inputs needs to be increased, and their access to technical and marketing assistance improved. Fourthly, policies which minimise unemployment should be expected to reduce inequalities. And, finally, the rural and urban poor have to be organised. Their vigilance alone can ensure that the benefits of various laws, policies and schemes to benefit them do produce their intended effect. Thus in addition to fiscal measures, narrowly defined, a redistribution bias has to be built into the whole spectrum of production, distribution and employment policies and in the organisational effort of official and non-official agencies.

This is indeed a correct and a brave statement. But what is it status ? And whom is it addressed to ? Is it the advice of an expert Planning Commission whose role is solely advisory to the government whose responsibility is to convert words of wisdom into deeds of action? Is it one organ of the State telling another what needs to be done. Or is it wishful thinking about what needs to be, but cann be done ?

A reading of the section in the Draft dealing with Distributiv Justice will show that these questions are very important indeed. Fo instance, when the Draft points out that on the basis of the NSS statistics potential surplus land available for redistribution would be 29.58 million acres, but th t officially estimated surplus was only 5.32 million acres, surplus taken over by government just 2.10 million acres and the area actually distributed only 1.29 million acres, where is this message to register? Or, when it is pointed out: "It is well known that the concentration of corporate property has increased during the last decade" and that : "Given access to

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credit on similar terms small farmers and small producers in many industries are able to have productivity and cost comparable to those in large units, but such access is denied by free market forces" what are the analytical and policy implications ?.

The Draft's reasoned assessment that "the most important objectives of planning have not been achieved" is not only a judgement on past planning and policies but an indication of the manner in which our economic system functions. The assessment is not that owing to some technical error the economy came to suffer, but that the planners and policy makers failed to give the system the kind of direction it was to receive on the basis of proposed goals. Hence the statement that a stagnent and dependent economy has been modernised, but unemployment and poverty are still very high. An honest paraphrase of that statement has to be that the benefits of the growth, modernisation and diversification of the "economy" have gone to a few while the many are still unemployed and hungry. If what happened was counter to the declared intentions of planning, it must be inferred that there are forces in the system that propel it along different courses. For all its good intentions, careful calculations and bravado the weakness of the New Development Strategy is that it has not bothered to locate these forces and suggest how they are to be dealt with.

## III

An appraisal of the New strategy from this perspective is necessary to see whether it will become effective or whether it will be just one more writing on the waves. The phenomenon of the growing affluence of the few accompanied by the continuing misery of the many is related to the actual manner in which what the Draft

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calls the product mix and technology mix questions are determined in the economy. The Planning Commission may give the correct advice on these matters, but anybody who is familiar with the working of the system knows that it does not take its orders from the Planning Commission or even from the policy makers. In fact, as pointed out earlier, the Draft itself recognises what the effective engine of growth has been in the past. The relevant passage runs as follows:

> The pattern of industrial development that has emerged obviously reflects the structure of effective demand, which is determined by the distribution of incomes. An unduly large share of resources is thus absorbed in production which relates directly or indirectly to maintaining or improving the living standards of the higher income groups. The demand of this relatively small class, not only for a few visible items of conspicuous consumption but for the outlay on high quality housing and urban amenititiss, aviation and superior travel facilities, telephone services and so on sustain a large part of the existing industrial structure.

If it is not the Planning Commission but the structure of effective demand determined by the distribution of incomes that actually decides the allocation of resources in the system, it is hardly surprising that Plan priorities get neglected and distorted. The determination of the product mix question by effective demand based on income distribution is not confined to the industrial sector; rather, it is the law of operation of the system we have. Where there is demand, goods will be produced no matter what the national priorities are. By the same token, where there is no effective demand goods will not be produced whatever may be the social urges in this regard. In sum, the rich will have what they want produced for them; the poor will not have what they need provided for them. This is the innate logic of our economic system. And since as incomes grow wants grow also,

not only more goods, but also more variety of goods and more refined goods will be produced for those who can afford them. National accounts will show all these as the achievements of "the economy" and the Planning Commission will, in turn, quote the figures as evidence of the progress registered thanks to planned development. But when the Commission announces that from now on the product-mix question is going to be determined by the Commission or the Government one is entitled to ask how.

The technology-mix question is but a close correlate of the producti-mix, question. It stands to reason that in any economy with abundant human resources labour intensive technology is more suitable provided the objective is the utilisation of these resources in production. But it also stands to reason that in an economy where the private accumulation of non-human resources is the guiding principle, only techniques that yield the highest surplus to the owners of non-human resources will be adopted. Private accumulators can have no commitment to the "national" objective of the full utilisation of the labour force available in the country, although they may not be averse to it if it can be achieved as a byproduct of their own drive for accumulation. But if a choice has to be made, it cannot be a matter of surprise that they opt for the product-mix and the technology-mix that yield the highest returns to their resources. This, again, is the innate logic of the system. And it is this logic that is manifested in the statement in the Draft that between 1961 and 1976 investment in the modern factory sector increased by 139 per cent, output by 161 per cent, but employment only by 71 per cent.

The actual working of our economic system which the policy makers are trying to influence through planning can be

understood only in terms of the working out of this logic at any given time and over a period of time. A simplified and stylised version of the essence of the economic changes that have come about in our country from the colonial period right to our own times, including the post-independence planning era may help to appreciate the development dynamics of the system. The pre-colonial economy of the country can be depicted as a surplus-generating, but essentially non-accumulating system. It was characterised by inequalities based on economic and non-economic factors, but also had many conventional methods to ensure that the limited basic needs of all members of society were met. Western colonial enterprises brought into this system the accumulative drive on the basis of which those who had command over non-human resources augmented their resources by extracting, step by step, the surplus potential of the system. The consequences of this process were the breaking down of conventional arrangements to meet the basic needs of the members of society, concentration of non-labour resources in the hands of the few who came to have an increasing hold over the working of the system as a whole, and the precarious existence of those who had little or no ownership of non-labour resources. From then on the logic of the system ensured that the product mix of the economy was determined by the growing wants of those with command over resources and that the technology mix served their accumulative urge. The accumulators were not all in this land, neither were they exclusively outside. But because a large share of the accumulation was siphoned off to the metropolis, the momentum of change within the country was slow. And yet the process itself led to an unequal distribution of affluence among the few and an equally unequal distribution of poverty among the many. Inequality in distributive shares and increase in inequality over time because of unequal accumulation, both based on the unequal distribution of "initial" endowments are essential features of the system of private accumulation.

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Notwithstanding "social" decisions to the contrary, what has been happening since independence is essentially a greater internalisation and intensification of the same process as documented by the Draft Plan itself. The unfolding of the same logic is seen in its clearest forms within the industrial sector of the economy. The many features of the industrial development of the past three decades, by this time well known, and reflected in the Draft itself, can be picked out as confirming evidence of the process. There is, first, the expansion and diversification of the industrial capacity, It is a fact that production in practically all branches of industry has increased making the country self-sufficient in many of them and that a much wider variety of goods are being produced now. Both these are natural consequences of a strengthened accumulative drive. There has been, along with these, a greater capital intensification of production which is also part of the same drive. Production reflects the structure of effective demand in spite of all efforts to turn it in other directions, which too is a reflection of the system's propensities. There is the phenomenon of the assets of the bigger corporations increasing more rapidly than of the corporate sector in general, This, again, is but a characterstic of the system of private accumulation. And now there is the fear that the expansion of industry is being slowed down by the narrowness of the market. This is a further aspect of the system manifesting itself perhaps sooner than we had anticipated. In all these , the course of development has followed the predictable propensities of an economic order based on the principle of private accumulation in spite of the professed aim of the Planning Commission and the Government to steer the industrialisation of the country along very different routes. Not only that. It is now admitted that whatever might have been the intentions of the policy makers, many of the policies, in effect, have only contributed to the strengthening of the natural propensities of the system. The Draft's chapter on Industry and Minerals candidly, but rather naively, admits this when it says:

> The growing capital intensive nature of industry and relatively high corporate tax rates have increased the dependence of the organised private sector on financial institutions. This has meant that the role of financial institutions in financing new ventures has grown substantially. Increasingly, therefore, the agencies which determine the pattern and structure of industrial growth are the term lending institutions rather than the Industrial Licencing Committee which at best can play a negative role.

The Draft's review of past industrial development and government's role in it gives many more instances of this kind which suggest that planners have not fully understood how the system functions. A couple more of these may be cited. In spite of the special role given to the "small man" in our planning at least from the Second Five Year Plan, the Draft now says: "The organised industrial sector does present several disturbing features. One of the more disturbing of these features is the relative decline in the growth of the small scale sector as compared to the medium and large sector." The small scale sector's share in industrial production in terms of value added was 19.5 per cent in 1968, but came down to 16.1 per cent in 1975-76. By contrast, of course, the big have become bigger, particularly the large industrial houses. Of this the Draft says: "To some extent this was the result of the Government's own policies which restricted the areas of growth of large and foreign companies to capital intensive industries on the grounds that the smaller entrepreneurs would not be able to raise the resources or possess the requisite managerial and technological competence to handle efficiently such large investment." The draft holds the government's licencing policy responsible, partly at least, to high industrial costs also: "high costs have sometimes been a direct outcome of the Government's licencing policy. When the demand was large enough to sustain only one plant of an economic size, several plants with sub-optimal

capacities were licensed in the name of diffusing ownership and preventing monopolies." It would appear also that according to the Planning Commission some of these policies will have to be reversed in the interest of healthy industrial growth in the future. For instance:"It is recognised that a modest rate of growth is a necessary precondition of industrial health and if these large and foreign houses are not to fall sick such growth may have to be considered. In socio-economic terms what is important is that the economic power they wield is not used against the public interest." In short, if in the past we failed to drive industry according to our plans, we must now drive it along its own path!

IV

It is this recurring urge to be "realistic" in planning - of which several sections of the Draft, particularly the chapter on Industries, speak with unconcealed fervour - that raises the question whether the New Development Strategy will have any chance at all against the powerful prosperity of the existing order. We must once again go back to the "four shifts" of the New Strategy and appraise them "realistically" to see what impact they will have on the system.

It is possible that there will be a shift into agriculture because there are powerful forces within agriculture that have now enough hold over the levers to bring this about. But what is to be the product mix resulting from this shift ? Total food grains production is to increase from 121.0 million tonnes in 1977-78 to between 140.5 and 144.5 million tonnes in 1982-83. Even if the higher figure is taken, the per capita availability of food grains in the country will increase only from 0.53 kg per day now to 0.57 per kg per day five years from now ! Obviously, we do not propose to produce food to feed our hungry millions. Much greater emphasis is put on the production of oil seeds so as to achieve self-sufficiency in edible oils.

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This does not have to be interpreted as a perverse preference for the rich man's diet against the poor man's. The product mix is dtermined in the internal consistency model via demand projections and the "realistically" estimated demand for food grains in 1988-83 even after transfer of incomes from the rich to the poor, is only 140.48 to 144.48 million tonnes and the projected supply beautifully fits in with it. The prominence given to oil seeds is also justified by a similar consistency calculation. But if the poor do not have enough food to eat there is still hope, for the allocation on animal husbandry and dairing in the Five Year Plan 1978-83 is double that of what is it was in the Fifth Plan 1974-79.

So much for the decision about the product mix. What about the technology mix ? If the new strategy relies so heavily on minor irrigation, that is, on ground water to be brought up through pumpsets etc., who are to be the real beneficiaries, although the agrarian strategy of the new Plan is dedicated to the small and marginal farmers And if the market forces are to be used to provide incentives, who will have the upper hand in the agricultural sector ? In all this, it does not take much effort to see the Planning Commission and the Government responding to "realities" when the time for implementation comes.

In the industrial sphere the realities are likely to be of the same kind. If nothing extraordinary takes places during the next five years the planners will be able to congratulate themselves on the profilic growth of small scale units - of the modern variety - in industry. The fact is that the growth of small scale production units is another manifestation of the expansion and diversification that comes about in industrial production. It has a technological and an economic aspect. Technologically, small scale units become ancillaries to larger units producing spare parts or specified items. In an economic sense small scale units become subsidiaries to larger

ones because for market they will become totally dependent on the larger ones for whom they produce. In this sense large industrial units themselves will "reserve" many areas of production to the smaller units, and may not mind it if the Government or the Planning Commission wishes to claim credit for this progressive measure. But whether the share of the small producers in the value added in the industrial sector will go up in the process of expansion is very doubtful indeed; but this is an issue that may not figure prominently in discussion for a while.

As for the village and household industries the story will be different. The efforts to boost up their production, if taken seriously, will immediately create the realistic problem of lack of demand. The chapter on Village and Small Industries in the Draft gives the impression that the main problem that they face is the non-availability of credit, and some attention has been paid to ways of improving their credit facilities. On the demand side there is the facile assumption that the products of these industries will find a market in Government departments and public sector undertakings and that such purchases will be adequate to absorb their production. But it has frequently been shown that any attempt to increase production of handloom cloth, for instances, runs into a glut problem (except to the extent that there is a foreign market for these products) and subsequently to a subsidies problem. Both these will force governments to reexamine the whole programme when the stage of realism is reached.

To expect a shift, from urban areas to rural areas via the emphasis on decentralised production, therefore, is somewhat far fetched. The Draft insists also that "the natural tendency of entrepreneurs to go where infrastructure is strong, markets are close and various services are readily available cannot be ignored." This is realistic enough. If so, with the growth of large scale industries, the increase in the number of small scale units of the modern type, and even any organised and large scale expansion of

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"villages" and household industries also will only lead to greater concentration of economic activity in the urban areas. This does not mean that there will be no investment in the rural areas. On the contrary, there is likely to be a pump priming approach to rural investment partly because powerful forces in the rural areas stand to benefit by it, but also because inspired by several learned international agencies we have come to believe that a drooping economy can be revived through creation of purchasing power in the rural areas. More about this is in the next section.

Finally, then, the shift from the non-poor to the poor. No such shift has taken place in the past and there is no reason to think that any will take place. This is not to say that the poor will be completely neglected. In the political economy of our country that stage is long past. Some land to the landless will be given, some drinking water schemes will be taken up; some welfare schemes will be adopted. But all these will be done to the extent that they can be accommodated through the public finance apparatus that we have. However, the income, consumption and accumulation of the richer sections will continue to increase. And, thus, to be realistic the new Plan will benefit all sections of society as a national plan is expected to do.

This assessment of the likely shape of things to come must not be taken as disagreement with some of the Draft Plan's ideas of how to tackle the problems of the Indian economy. There can be no doubt that the twin problems of mass poverty and chronic underutilisation of the vast human potential of the economy can be solved only by going through a stage where the mass of the people are involved in the production of the basic goods -- particularly food, clothing and shelter - that are required for them. Only a process of that kind will ensure that the product mix is what is

really required by and for the vast millions in this land. Only a process of that kind will ensure that the technology mix is what utilises to the maximum not only human labour but also human creativity. But far greater changes than what our policy makers are willing to bring about will be required for such a situation to become a new reality.

V

In this concluding section we shall take a second look at the Draft Plan's strategy, not as a strategy to usher in a new pattern of development which it certainly will not do, but to meet the pressing needs of the system as it functions now.

The basic premises on which the Draft Plan is built are some new opportunities and some new problems. The opportunities are the steady achievements of the past which give the planners the feeling that the Indian economy has arrived somewhere. And so:

> In the next stage of the evolution of the Indian economy, planning must be geared to attack the unsolved problems of poverty, unemployment, inequality and structural backwardness more directly and effectively. As a result of development so far, the saving capability of the economy has increased. An adequate stock of technological skills is available. A strong and diversified industrial and infrastructure base has been built up. And in parts of the country agriculture is also highly advanced. The task now is to utilise these human, material and financial resources for a new pattern of growth in furtherance of the goals of full employment and distributive justice.

It may be recalled that the preparatory document of the Fifth Plan also expressed similar views and claimed that "the economy has now reached a stage where larger availability of resources makes it possible to launch a direct attack on

unemployment, underemployment and poverty, and also assure adequate growth".

But our plans have seldom been attempts to make use of new opportunities. Each plan has attempted to deal with a contemporary crisis. And the Draft Five Year Plan 1978-83 is no exception. The crisis in its formative stage is two fold, and one does not even have to read between the lines to locate them.

The first of these is the unemployment problem which has been with us always, but whose dimensions and implications have become "staggeringly large," to use the expression from the Draft itself. The Draft refers to different approaches to the measurement of unemployment. The first is its estimate of the chronically unemployed, estimated to be 4.4 million persons in 1978 out of a labour force estimated to be 265.3 million, both arrived at from the 1971 census calculations. It also refers to the NSS estimates of the "weekly unemployed" of 10.1 million persons in 1973, and on that basis 11.2 million persons in 1978. It also reports the person-day employment estimated as 130.0 million days per week in 1973, equivalent to 18.6 million persons being unemployed on a typical day. Assuming the person-day unemployment rate to be at least as much as in 1973, unemployment in March 1978 is estimated to be 20.6 million person years, 16.5 million in the rural areas and 4.1 million in the urban areas. This figure, admits the Draft, is "larger than in any country in the world for which any unemployment statistics are available"

The Draft also takes note of the fact that employment in the organised sector (including plantations, mines, manufacturing, utilities, public services and all reporting units in trade and transport) absorbs just above 11 per cent of the current annual increase in the labour force, the remaining 89 per cent being forced to hang on, for sheer livelihood, either on agriculture or

some form of informal activity. Similarly it is estimated that even if organised industry were to grow at the rate of 6 to 7 per cent a year - considerably higher than what has been happening in the recent past - it would absorb only 0.3 per cent of the labour force annually.

This is the problem that the Plan is proposing to tackle, and it may appear natural, almost inevitable that the solution to the problem is to create employment in agriculture and in the informal sector, And as has been noted already the investment pattern suggested in the Draft, in agriculture and in the small scale and village industries, and the proposal to shift consumption from the non-poor to the poor all have the overriding employment objective. But by the Draft's own reckoning these are, at best, short term palliatives which have to viewed against the "historically unique fact" that in our country over the last six decades the share of agriculture in the work force has not diminished at all. It was 73 per cent in 1921, 73 per cent again in 1971 and 73.8 per cent in 1971. Not only is this contrary to the development experience of the advanced countries, it is unlike what has been happening in some of our Asian neighbouring countries in the past decade - Afganistan, Bangaladesh, Cambodia, Malaysia, Nepal, Pakistan Sri Lanka, Thailand and many others in all of which the share of the labour force in agriculture has come down. So the employment strategy of the Plan cannot be a long term development strategy. In the long run the employment question cannot also be divorced from the productivity question, and the activities of the informal sector characterised by extremely low levels of labour productivity will have to be replaced by more productive enterprises. To the extent that this is the case, the New Development Strategy is no development strategy at all, but a desparate effort to do something - just about anything to create some jobs.

There is an even more desperate aspect in the Draft Plan document. This is the demand crisis which one senses all through its pages, starting with the statement on the very first page that "the further expansion of industry is limited by the narrowness of the market. As a result, further import substitution of consumer goods or capital goods cannot, at the current level of demand, affor any great impetus for continued industrial growth." The theme then pops up frequently, sometimes in the most unexpected places. It turn out that the employment creation about which the Draft speaks so eloquently is an indirect way to stimulate demand by putting purchasing power into the hands of a larger section of the population It turns out too that the rural development programme is another way to boost up demand. It is stated: "Accelerated rural development and small industries programme will redistribute purchasing power and relax the demand constraint on industrial growth." Also : "The large step-up in public sector outlay contemplated will, it is expected, contribute to a growth of demand." Even the minimum needs programme has demand creation as one of its unconcealed objectives. All these are clearly expressed in a passage from the chapter on Industry and Minerals: "The broad strategy (of industrial growth) is based on the premise that the big increase in investment that is proposed in employment intensi e activity like agriculture and allied activities, irrigation and in infrastructure like power and roads, and minimum needs like water supply, health, primary education and housing will stimulate the demand for a wide range of mass consumer, intermediate capital goods."

This is not only the Plan's strategy of industrial growth, it is the essence of the Plan's development strategy. The planners have been quick to grasp that, paradoxical as it may appear, the major constricting factor in the development of the Indian economy along the path that it has been taking so far is the limitation of the domestic market. Export promotion and diffusion of purchasing power

internally are the remedies they have for this malady. Could it be that the New Development Strategyof the Plan is only an attempt to achieve the latter in the name of the universally accepted social aims of the Indian people and of the poor who are always to be with us ?

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Seminar

on

ALTERNATIVE DEVELOPMENT STRATEGIES :

THEIR RELEVANCE TO INDIA

# CHARACTERISTIC FEATURES OF DOMINANT AGRARIAN RELATIONS AND CLASS BASIS OF RURAL DEVELOPMENT IN INDIA

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# CHARACTERISTIC FEATURES OF DOMINANT AGRARIAN RELATIONS AND CLASS BASIS OF RURAL DEVELOPMENT IN INDIA

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The history of social evolution and development underlines two things : firstly, material production is the starting point for all social existence; and secondly, the process of material reproduction is the basis of development for all societies, whether they are primitive or modern, contemporary or of the past.[1] Hence growth defined as 'a sustained increase in output' is essential for the development of any type of societies. But the nature or character of social development depends on the social context of growth in which as the process of production, it takes place in a society. The social context of growth cannot be ascertained or understood unless the economic conditions in which output is produced and increases over a period of time are historically examined.

"What we understand by economic conditions which we regard as the determining basis of the history of society are the methods by which human beings in a given society produce their means of subsistence and exchange the products among themselves (in so far as division of labour exists). Thus the entire technique of production and transport is here included. According to our conception this technique also determines the method of exchange and, further, the division of products and with it, after the dissolution of tribal society, the division into classes also an hence the relations of lordship and servitude and with the state

politics, law etc. Under economic conditions are further included the geographical basis in which they operate and those remnants of earlier stages of economic development which have actually been transmitted and have survived after only through traditions or the force of inertia; also of course the external milieu which surrounds this form of society".[2] The economic conditions which are a conjuncture of forces of production and production relations (i.e. class relations in production) are regarded as 'the factor which ultimately determines historical development' (i.e. economic development) and 'political, juridical, philosophical, religious, literary, artistic, etc. development is based on economic development'.[3] Thus given economic conditions, there exists a given socio-economic structure of production in a society and the latter shows how dominant (and alternatively dependent) social relations dialectically appear and function in the process of production and how finally they determine the process of social development.

The purpose of this paper is to discuss the characteristic features of dominant and dependent class relations in rural society; and thereby, an attempt is also made to show how their interrelationships and interactions in production have historically formed the basis of development in the rural economy of modern India. These two taken together will, in turn, reflect why the rural poor remain poor in rural India.

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relations; and (d) why rural poor remain poor.

## I Concept of Dominant Class

A class may be called dominant if a group of people possess power or capacity to rule or dominate over other groups in a society. But the question is : How and why does this class dominate over other groups in the rural society?

The dominant caste-theory[4] may reply to this question by showing that in a caste-ridden agrarian society, there exists a dominant caste in terms of both, numerical as well as material strength and so the people of that caste dominate over the rest of the rural population. The exponents of the rich peasant theory of development[5] find a group of peasantry, coming from different castes, is dominant because the peasants in this group enjoy or command a major part of economic power by reaping the benefits of development and accumulate and build a position of dominance in the rural society. There may also be another explanation to this concept, according to which some group of the rural people is dominant because of the possession of all three; social status, power and wealth in the rural society.[6] All these conceptual explanations are static, mechanical and ahistorical. Whether it is the dominant caste or rich peasants or the group possessing status, power and wealth; all of them come from within a given socio-economic structure of production which identifies a given mode of production and it is this mode of production on which the class basis of both, ideology as well as production gets formed in the society. At the first instance, in a broader sense, the

concept of dominant social structure is identified with the ruling class which forms the ideological basis of social development. "The ideas of the ruling class are in every epoch the ruling ideas : i.e. class, which is the ruling material force of society, is at the same time its ruling intellectual force. The class which has the means of material production at its disposal, has control at the same time over the means of mental production, so that thereby, generally speaking, the ideas of those who lack the means of mental production are subject to it. The ruling ideas are nothing more than the ideal expression of the dominant material relationships, the dominant material relationships grasped as ideas; hence of the relationships which make the one class the ruling one, therefore the ideas of its dominance".[7] Thus the ruling class in a given epoch conditions and determines the socio-economic structure of production. The ideas of this class which result from its dominating material relationships, form the ideological basis of social development. Herein lies the difference between the Marxian theory or concept of dominant class and the ahistorical subjective explanation of the dominant caste or rich peasants or social status-power-wealth-based theory of development. Moreover, the historical dynamics of social evolution and development present a dynamic concept of the ruling or dominant class in the sense that the character of this class changes with change in the socio-economic structure of production which forms the basis of the mode of production in a society.

In a given socio-economic structure of production, the ruling or dominant class presents 'a particular interest as general or

the general interests as ruling',[8] and thereby, the ruling class creates such a condition which subsumes the interests of other classes dependent on it. But this process is dialectical and the inherent contradictions arising from within the socio-economic structure wage war against the existing ruling class which changes its characteristic role by transforming the socio-economic structure of production in the society. It is the characteristic role of the dominant class which determines the social context of growth, i.e. the process of economic development.

## II Feudalism and Dominant Class

The most refined and advanced definitions of feudalism are to be found in Capital. The basis of the feudal society, as Marx points out, consists of the relations of personal dependence. "Personal dependence here characterises social relations of production just as it does the other spheres of life organised on the basis of that production".[9] Labour here consequently figures in natural form. The socio-economic structure of production characterises the existence of lord-serf relations in production wherein the feudal form of property exists with a multitude of peasant allotments. The peasants cultivate land for the landlords with the help of traditional and primitive techniques; and in return they get a portion of output for consumption and the rest is appropriated by the land owners. Thus "feudal production is characterised by division of the soil amongst the greatest possible number of sub-feudatories",[10] for these are the foundations of feudal states.

Feudal property (which is the sum total of economic relations) covered not only landed property, but also the town with its craft industry, regulated by guilds. However, the centre of gravity of the whole medival feudal system was the countryside. And the organisation of town industry was determined, in essence, by general structure of feudalism, which was founded on 'landed property with serf labour chained to it'. Thus the socio-economic structure of feudal production was also the basis of production in the town.

In feudal society, the lords are the ruling or dominant class who control not only the source of material wealth but also the process of material production and the socio-economic structure. The existence of structural relations of personal dependence makes the peasants dependent on them. In other words, the domination of the land as an alien power over man and the serf being the adjunct of the land, and the creation of a social system of interpersonal bondage are the strength of the landlords for establishing themselves as the dominant or ruling class whose ideas form the ideology of development in feudal society.

All this presents a generalised picture about feudalism as one of the stages of development in the history of mankind. Feudalism as a stage of development in the history of India has its own characteristic forms and phases through which it came into being in medival and British India.

According to Marx, the history of feudalism in different countries "assumes different aspects, and runs through its various phases in different orders".[11] Let us take the case of Medival

and British India. "The structural pattern of medival India is still a matter for research, but it is already clear that it contained, alongside the dominant feudal structure, considerable residues of clan and tribes relations and partly of slavery, which in a number of regions made up structural patterns. It is also clear that elements of small commodity (with individual centres of capitalism) also existed, specially in urban crafts. Moreover, Indian feudalism itself took many different forms".[12] The feudal dominated multi-structured society of medival India had three characteristic features : centralised power at the apex of its pyramidal social structure, village system in the countryside, and the union between agriculture and manufacturing industry. The village system and the union between agriculture and industry are the characteristic features of the Asiatic mode of production which was prevalent during the period of medival India. But these characteristic features do not underscore the dominance of feudalism in medival India. The despotic land revenue system and general administration bear an evidence to this fact. The dominant feudal structure was inter-wovenly based on the despotic relations with the Village Headman and Accountant in the country-side. The Jagirdari system is another example to show how the social structure was feudal dominated during the period of medival India. Thus despotism based on the feudal dominated social structure had despotic feudal relations which created dominant or ruling class comprised the feudal lords, Jagirdars and Village Headman; and so the peasants, servants and small commodity producers were dependent on them.

The feudal structure of medival India underwent changes during the colonial rule in British India. A short account of The British Rule in India by Marx shows how "England has broken the entire framework of Indian society, without any symptoms of reconstitution yet appearing."[13] "This loss of the old World, with no gain of a new one, imparts a particular kind of melancholy to the present misery of the Hindoo, and separates Hindostan, ruled by Britain from all its ancient traditions, and from the whole of its past history."[14] The Indian social structure was ruined by the British not in the sense of ruining its feudal base but in terms of destroying its inner and spontaneously grown and operating ties between agriculture and industry having based on the internal structure of social relations and indigenous traditional technology. The destruction of handicraft industry by the British resulted in the expansion of merchant capital and money-lending coupled with heavy doses of land taxation. Certain metropoleses were developed as the centres of trade through which raw materials were supplied to England from the periphery and the manufactured goods were imported to India from England for absorbing them into the colony. As a result, a characteristic pattern of economic relations developed between the metropolitan centre and the periphery. This pattern was again diversified and strengthened by the investors, traders, bankers, administrators and advisors who came to the country with a motive to turn their business and activities into the lasting sources of profit. Thus the colonial process of exploiting economic expansion led to the emergence of traders, merchants, money-lenders, and bureaucrats

as different social classes who were, at the first instance, integral parts of the colonial process of exploitation and oppression and also fred up a social organism antagonistic to feudalism in India.

Now look at the feudal society of rural India under the colonial rule. Without going into the historical details of how the form of feudalism changed or took another shape in British India, let us confine to what finally appeared on the rural scene in the countryside. In this case, it is better to have a look into the land revenue system prevailing in the counntry at the close of the 19th century of its colonial rule.

The system of land revenue was three-tier : the Zamindari, ryotwari and village settlement or communal ownership systems. This three-tier system of land revenue came into existence due to the introduction of a number of changes as a compromise to regional variations in the pattern of social relations in land ownership existing in the country; the objective of which was to intensify the feudal process of peasant exploitation. Marx regarded the Zamindari system as big landed proprietorship, the ryotwari system as petty individual and, principally, peasant land ownership, and the system of village land taxation in the then Nort-Western Provinces (Doab) as communal land ownership.[15] While exposing the British land revenue policy in India, he called the Zamindari and ryotwari system caricatures on private land ownership, although even in this case he wrote of two distinct forms of private ownership, i.e. of landed proprietorship under the Zamindari system and of peasant ownership under the ryotwari

system.[16] These units for the exaction of land revenue, in fact, characterise three sets of feudal relations. Under the Zamindari system, big landed estates or landlords collected revenue on a fixed basis for the British Raj by appropriating output produced by the peasants who cultivated land owned by its lords. Hence there existed landlord-peasant relations in agriculture. Under the ryotwari system, holding of the ryot (as prevalent in the Bombay and Madras Presidencies) was the unit for the exaction of land revenue. The ryots were in fact small feudal lords who, by and large, belonged to the Poligar families. The Poligars were appointed by the Monarchy as the in-charge of some villages for the purpose of land revenue collection. Hence the ryots had mixed picture about land relations in production. However, it was another form of feudalism. The system of village or communal ownership as the unit of land taxation had the village Zamindar or the communal group of land owners related to each other responsible for the payment of the given village's land revenue. In this case as well, the landlord-peasant relations in production existed as the characteristic of feudal society.

All the three systems testify to the existence of a socio-economic structure of production in British India wherein the landlords were dominating production or property relations on the basis of either their inherited landed aristocracy or enjoying colonial royalty or support. On the basis of the contemporary historical documents, Erik Komarov states : "Under each of the three basic land revenue systems the intensification of non-economic compulsion was an inherent feature of the exploitation

of the peasants. It was put into effect with all the power of the colonial state machine directly or by giving the feudal rights over the person and property of the peasants (private prisons and methods of torture of the Zamindars in Bengal, their treatment of rayats as serfs). In both cases the peasants were reduced virtually to serfdom, although this tendency was not observed in the same degree everywhere. Torture to exact rent or revenue was commonplace. In rayatwari areas the rayat was not only actually but, to a certain degree, also legally bound to the land, and the character of land cultivation was coercive. The situation was practically the same in Zamindari areas. In the Madras Presidency the law stated that a wealthy rayat could leave his land only if he found another rayat to replace him or agreed to occupy some other land taxable to the same amount as his previous land".[17] The process of the feudal exploitation of the peasants, the intensification of non-economic compulsion and other coercive measures made the peasants and labouring class bonded to the landlords and fully dependent on them.

The historical evolution and operation of the three-tier land revenue systems under the colonial rule also unveil a process of change in the feudal dominated agrarian relations in British India because of (a) the growth of commercial capitalism in metropolitan and other urban centres and (b) the extra-economic coercive methods to exploit the peasants by the colonialists coupled with the feudal exploitation of the peasants and the rural poor. The first led to the emergence and growth of traders, merchants, money-lenders and intermediaries who established marketing links

between urban and rural areas. Hence the countryside also experienced the growth of at least intermediaries, petty traders and money-lenders causing some changes in feudal relations.

The intensification of extra-economic coercive methods of peasant exploitation and the feudal exploitation of the peasants gradually turned into anti-feudal actions. The colonial state machinery had to introduce tenancy legislation for granting occupancy rights of land to the peasants by annulling the power of the landlords to sequester the property of the peasants. Such colonial action was helpless compulsion to contain the peasant uprisings and to raise the market value of land which had virtually fallen to a dismal point. Thus at the beginning of twentieth century, the process of commodity production (specially petty commodity producers) started to take place in the countryside. At the same time, the landlords were also using money-lending as a weapon to make the peasants bonded to them. All these forces - growth of commercial capitalism in urban areas, merchant-capital, money-lending and petty commodity producers brought about a process of transition in feudal rural India leading to the characteristics of semi-feudal social structure of production in the country. In other words, capitalism as an element of system moulding came into being which crumbled the dominant feudal relations. Thus the semi-feudal structure enwrapped the following : big landlords and intermediaries, traders and merchants as the fabrics of the dominant class structure in rural India.

But this is not the whole story of the class formation in British India. There also emerged two other classes : capitalist

or industrial bourgeoisie and elite middle class. The history of the colonial process of commercialisation and trade expansion shows how a capitalist class emerged from within the country and how an elite middle class was created through the expansion of colonial system of bureaucratic organisation with the evolution of a modern system of education in India. The capitalist class on the support of the colonial power or rule became the big owner of money, finance and then capital which led to a process of separation between urban and rural areas, capital and labour, industry and agriculture which finally bred up an ideology of private ownership of the means of production with the support of the colonial power, having linked to the international capitalist system of trade. The emerging middle class with the spurt of modern education helped in building a superstructure on the basis of capitalism as a system moulding element in the multi-structured economy of India. Hence the capitalist, landlords, merchants and elite middle class were the dominant conglomerates of the country in general and the landlords were still dominating in the semi-feudal structure of rural India.

There may not be much digression from the main theme, as discussed above, if the two social institutions - castes and <u>Jajmani</u> system - lasted for a long period of time in the history of agrarian evolution are briefly mentioned here for showing their interrelations in the feudal dominated structure of production in particular and in the emergence of capitalism as a system moulding element in general.

Castes and *Jajmani* system were the two major inextricable ordinates of village communities in India. The hierarchical pattern of castes which was originally a natural functional division manifested in the *Jajmani* system as a communal system or mode of distribution took a turn into the historical realities of a rigid social system strictly following the rules, customs, traditions, kinship, heredity and family in the whole of India. Such historical realities realised their social materialistic existence from the growth of landed property under feudalism wherein some castes - primarily upper layer like Brahmins and Rajput - dominated social relations in the process of material production; and other castes comprising peasants, artisans and servants remained subjugated to be dependent on them, or continued to be the clients of the feudal lords, showing a system of client-patron relationship, i.e. *Jajmani* system. In other words, the *Jajmani* system does not only symbolise a structure of social relations of personal dependence but also testifies to the creation of a social force to colour and maintain the caste system as a differentiated social structure of class relations, having the dominance of feudal lords in society. There were also some castes in between the upper and lower layers of the caste system which may also be grouped as a middle class, its function being a social link between these two social extremes. Thus the caste-based structure of feudal society was, in fact, class-based as the prevailing material relationships among castes in the process of production indicate. The *Jajmani* system continued as a mode of distribution (or as a system of communal cooperation)

in terms of barter between grains, and services and non-agricultural goods. This continued on the basis of castes as different occupational functionaries whose cooperation was a natural necessity.

The injunction of castes with Jajmani system, however, blurred the picture of class-based rural society; and with the given mode of production, a stubborn rigid social structure emerged in rural India. That is why Marx remarked : "The Asiatic form necessarily survives most stubbornly and for the longest time. This is due to its presupposition - that the individual does not become independent of the community; that there is a self-sustaining cycle of production, unity of agriculture and the handicrafts etc."[18]

The caste-bound framework of social structure also continued to exist in some or other during colonial rule. But its historical geneology shows that the landlords - a dominating class - mostly coming from the aristocratic or royal families - inherited and formulised their respective caste characteristics. These characteristics show that they mostly belonged to the upper layer of the caste system. The peasants were mostly backward castes and labourers coming from the lower layer of the caste system. At the close of the 19th century, specially after the enactment of Tenancy Law, the historical forces also converted some of landlords as peasants and some of the peasants as petty feudal landlords. Hence the history of such social inter-course produced some distortions in the feudal dominated structure of rural society. But on the whole, the landlords were mostly higher castes. All this shows that the class-caste characteristics were the same, except

in the case of maintaining kinship and hereditary family relations which were always perceived by social anthropologists in the form of a caste system.

The trading and merchant classes which emerged during the colonial rule were from the Vaishya or business communities, such as Marwaris and Gujaratis. The historical documents show that some of big merchants and bankers who emerged in the Bombay and Calcutta Presidencies, were from these communities having ancestral links with the 'Rajahs' and other feudal lords. They had a dual function to play, apart from their business : (i) to act like an agent between the State and its ruling class; and (ii) between the ruling class and the people at the grass-root. In this way, they maintained or changed their ideology at the occasions arising out from the historical process of change. Lieutenant-Colonel W.H. Sleeman declared : "There is no class of men more interested in the stability of our rule in India than that of the respectable merchants; nor is there any upon whom the welfare of our Government, and of the people, more depends".[19] Thus the traders, merchants and bankers were a part of the existing class basis of ideology and social development.

The elite middle class, which emerged from the colonial system of bureaucratic organisation with the spurt of modern education were the people from the upper castes (Brahmins in particular in the case of the Madras Presidency) and also helped in sustaining a superstructure at the base of the colonial mode of production operating in urban areas and the feudal mode of production operating in the countrysides. Hence the people of this class were

also a part of the ruling class basis of ideology and social development, as they came from landlord and trading-cum-merchant communities. All this shows that the castes were superficial social boundaries but deliberately maintained as a rigid social system based on the kinship, traditional and customary practices of intra-family social intercourses. Hence the class characteristics were the basis of social development and the caste stratifications were the basis of sustaining superstitious fabrics of social system.

## III <u>Policy, Programmes and Class Relations</u>

The long continuing colonial process of plunder, loot, and exploitation aroused the impulse of nationalism among the people of India and finally, the wave of the National Movement gathered its momentum and strength for compelling British Raj to hand over its sovereign power to the people of India on 15 August 1947. Before discussing one of the aspects of the main theme in this section, it is equally important to show what socio-economic structure of production was and which class or classes dominated its material production relations on the eve of the Independence. The foregoing section shows the growth of capitalism as a system-moulding element with the existence of semi-feudalism in rural India. The growth of capitalism as a system-moulding indicated an increasing dominance of industrial capitalist class, a process of separation between agriculture and industry, differentiation between urban and rural areas, and growing trade and market relations with their distinct spatial differences. It was, thus, natural for that element to influence the economic conditions

of production in rural areas. Hence there predominantly existed semi-feudal social structure of production wherein the feudal lords - big and petty - dominated the material production relations with a multitude of poor peasants and labourers depending on them. The superimposed caste system on the class-based rural society was also present on the eve of the Independence. Some of the stubborn characteristics of the village community in the shape of the Jajmani system were also carried over from the past. The basic fabric of the colonial system of bureaucracy also remained in tact. In a sense, all the institutional fabrics of the British Raj remained interwoven in India on the eve of her Independence.

The framework of a political economy emerging from the Constitution of Independent India presupposes the existence of individualism, political democracy and private ownership of property as the means of all social development and socialism as the end of this development. The Fundamental Rights of the Constitution sanctioned the former (i.e. individualism, democracy and private ownership of propverty and the Directive Principles of State Policy attempted to realise the goal of socialism (or called as growth with social justice). The State is assumed to play a catalystic role to harmonise antagonistic relations between the means and the end. Thus the constitutional framework of the political economy of post-Independent India basically drawn on the premises of capitalism for securing socialism by the State is, in fact, a product of the historical realities of the class-based ideological forces of the National Movement struggles for the Process of National Self-Determination. Lenin's theory of National Self-Determination

shows how socialist thought appears an important feature in the process of national self-determination : "For the complete victory of commodity production, the bourgeoisie must capture the home market and there must be politically united territories whose population speak a single language . . . unity and unimpeded development of language are the most important conditions for geneuinely free and extensive commerce on a scale commensurate with modern capitalism . . . for the establishment of a close connection between the market and each and every proprietor, big or little, and between seller and buyer. Therefore the tendency of every national movement is towards the formation of national states, under which these requirements of modern capitalism are best satisfied . . . for the entire civilised world, the national state is typical . . . consequently if we want to grasp the meaning of self-determination of nations . . . we must inevitably reach the conclusion that self-determination of nations means the political separation of these nations from alien bodies, and the formation of an independent national state".[20] Hence there is no wonder if the political economy of India is constitutionally established to maintain and generate such an aggregate of socio-economic relations in material production by the State for bringing about socialism through the development of capitalism.

The foregoing section shows the emergence of capitalism as a system-moulding element and the existence of semi-feudalism in agriculture. Hence the semi-feudal structure of the rural society, being the main core of the national economy and its overall development, continued to be the major obstacle to the development

of capitalism in India. Alternatively, it also means that the existence of semi-feudalism was also the major stumbling block to the process of rural development. By recognising these facts, the process of planning in India started with the twin objectives of development - industrialisation and rural development. The objective of industrialisation has been the expansion of the 'modern capitalist sector' which reproduces productive capital for investment leading to the growth of capital accumulation and the introduction and adoption of technological changes.[21] But the success of industrial development (i.e. the capitalist sector expansion) depends on the size of home market which, in turn, depends on the growth of commodity production in agriculture. Hence a suitable strategy of planning for rural development is required for changing the semi-feudal system of production into a capitalist mode of production. This process of change depends on the creation of such a socio-economic structure of production which could breed a class, i.e. capitalist, for introducing new forces of production in agriculture. The emerging new class in production would lead to a dominant mode of production which gradually results in the growth of commodity production, extension in the size of market, investible surpluses and so finally, in the expansion of the modern sector.

All these facts may be reckoned with, in some form or other, in the official Plan documents of the Government. Ranjit Sau[22] has characterised the official strategies of planning for rural development as the integral and differential strategies for rural development. According to him the integral strategy followed from

1951-52 to 1964-65 had its three major planks : (a) land reform, (b) cooperative farming and (c) community development. His classification of the differential strategy which marks, a turning point with a new phase of rural development since 1965-66 consists of the new agricultural strategy, special policy and programmes for developing and improving the productive and socio-economic conditions of the poor peasants, tenants, landless labour and artisans. In addition to these two characteristic strategies, the third may also be added, i.e. integrated rural development which encompasses the essence of both, integral and differential strategies with an added emphasis on the spatial units of planning for rural development. This has gained popularity in rural India after the publication of the blue-print of the World Bank on 'The Assault on World Poverty' in 1972.

The first strategy "was largely informed by the Gandhian concept of a peasant economy composed of small and medium peasantry, tied together with a spirit of mutual cooperation and a profound outlook for the development of all".[23] Thus the objective of this strategy was to integrate all <u>three</u> planks of planning for reconstructing and reorganising the rural economy for producing such a socio-economic structure of production in agriculture wherein the peasant mode of production could emerge leading to the growth of petty-commodity production in agriculture, an essential condition needed for the development of capitalism. 'A tacit assumption of harmony between production, employment and the removal of poverty' was also held in this strategy.

The main objective of various land reforms and tenancy measures introduced in different states of the country was to create conditions for changing the existing agrarian social structure in a manner to make it conducive to the growth in agricultural production. Hence the abolition of the Zamindari System and other intermediaries, procurement of excess land above ceiling size of holdings, and the confirment of ownership right in land on the tenants crumbled the strong edifice of feudal lord-peasant relations in production by converting feudal form of landed property into private ownership of property and by compelling the landowners for the resumption of self-cultivation in rural India. In this way, such measures created potentials for the genesis of small commodity production as one of the essential requirements for the development of capitalism in agriculture. But the resultant peasant economy could not remove the element of monopoly in land. Marx says : "The division of landed property negates the large scale monopoly of property in land - abolishes it; but only by generating this monopoly. It does not abolish the source of monopoly, private property. It attacks the existing form, but not the essence of monopoly".[24] Hence land as a source of monopoly continued to exist in the peasant society despite the enactment and implementations of land reform and tenancy acts in different parts of the country.

"The second plank of the integrated strategy for agrarian development was the cooperative movement, embracing all the aspects of farming - production, input supply, marketing of produce etc. The declared aim was to cover the entire village

land under the cooperative responsibility of the community".[25] In pursuance to this objective, the Gandhian model of cooperative farming was experimented at certain places; but it could not succeed in practice because of antagonistic class-caste relations in land-cum-production.[26] It only remained a show-piece at the hands of some Gandhians on the official support of the state. However, the cooperative movement embracing other aspects of farming such as credit and fertilizer supply and marketing of produce had been a success because of the entry of rich peasants, traders and merchants and bankers into different cooperative institutions which proved to be a powerful organic machinery to sustain and exercise their power in the given set-up of democracy. The other cause for the success of this movement in these fields had been also the state's support and the development of marketing and trade links between urban and rural areas.

The idea of community development, the third plank of the integral strategy started in 1952, aimed at arousing the impulse of planning for agrarian development among the people in villages by undertaking a package of programmes touching all aspects of rural life such as agriculture, irrigation, communication, education, health, housing, training, supplementing employment and social welfare. For this end, the BDO, a unit of administration assumed the charge for delivering the multi-prone objective of the community development programme and the role of local leadership was felt necessary, in addition to the BDO. The success or failure of this programme need not be retold, except that its contributions to the process of monetisation in rural areas through various channels and to the rebuilding of a class in the structure of rural power.

It may not be out of the context if irrigation projects and IADP (Intensive Agricultural District Programmes) are also mentioned here and included in the integral strategy of planning for agrarian development. The purpose of both had been to intensify farming in rural India. Irrigation, one of the important productive forces, is essential for the development of agriculture in the agrarian economy. And so, the provision of irrigation to assure water supply for crop cultivation for increasing production and employment has always been one of the major activities in the plan documents. Added to this, modern inputs like HYV and fertilizer are also needed for the development of agriculture, because 'agrarianism' characterising the use of traditional agricultural pursuits has always been viewed as one of the major causes for the persistence of underdevelopment and backwardness in rural areas.[27] But the use of these inputs cannot be made popular all of a sudden. Hence the Intensive Agricultural District Programmes were launched to demonstrate the high-yielding effects of these inputs in rural areas. Again, given the structure of the peasant economy, the idea behind these programmes was to create productive conditions for the development of agriculture in India.

All these aspects of the integral strategy actually aimed at creating <u>conditions</u> to overcome semi-feudalism which was arresting the development of capitalism in agriculture. But the operations of the integrated strategy could not succeed in transforming the semi-feudal structure of production in rural areas, despite the erosion of the colonial base of feudal relations. This was due to two factors : (a) low productivity of labour in agriculture, and (b)

growth of intermediate structures such as money-lenders, merchants and middlemen. The productivity of labour remains low because of the continuing use of traditional agricultural practices and persuits. The increasing number of cooperative societies of different types led to the intensification of intermediate structures in rural areas wherein the landlords also played an important moneylending role. As a result, the peasant economy based on family labour-farming remained subsistence producer and under the bondage of indebtedness to the landlords, moneylenders and merchants. Hence the Gandhian idea of a peasant economy was not realised nor the development of capitalism in agriculture.

The differential strategy for rural development was a distinct package of development efforts for the promotion of capitalism in Indian agriculture. The strategy also included special policy programmes and protective measures. The objective of the special policy programmes like SFDA and MFADA was to make small and marginal farms viable units of production. The protective measures like CREP and other public works programme aimed at improving the socio-economic conditions of the rural poor, specially landless labour by providing casual employment to them. In other words, the purpose of the special policy programmes was to sustain the characteristics of a self-content peasant economy with the infusion of money into the rural areas for extending the process of value-in-exchange through the Keynesian type of public works programmes.

The spurt of new technology with a package of modern inputs in agriculture, which was one of the planks of the differential strategy succeeded in bringing about the socalled 'Green Revolution'

in Indian agriculture. This revolution was, at least, a success in the irrigated areas in general and in the wheat irrigated areas in particular. The spurt of the new technology raised the productivity of labour in Indian agriculture. But the surpluses resulting from this increase in productivity while wage rate remaining low, accrued to those who were large landholders. As a result, the green revolution era witnessed to a process of growth in income equalities at the intra-farm level, but being different in different areas. There is a massive literature to bear an evidence to this fact. There was also an obvious impact of this change (i.e. new technologies) on the structures of land, labour and product markets in rural areas. The value of land shot up quite high and the land-lease market witnessed to the emergence of tenants from dominant class of farmers.[28] This effect was also partly due to increasing cost of farm production and partly due to absentee landlordism in certain areas. The consequent rate of rise in ground rent from the new technology restricted the small traditional peasants to cultivate land on lease and so it was also a cause for the same effect. The rural labour market experienced growth of wage labour in agriculture. An increase in marketable surplus of agricultural commodities resulting from the new technology extended the size of home market in rural areas. And so, capital in terms of productive assets also took place, despite spending a major part of surpluses on unproductive consumption. The liberal credit policy also helped in the growth of productive assets. But all this happened to those who were mostly large landholders. All these markets - commodity, labour and credit - being inter-locking at the land-base were interrelated to production

relations. In this system of interlocking market and production relations, during the Sixties progressive large farmers commanded the position of dominance in the agrarian economy. The existing intermediate structures were, however, also maintained for exploiting the poor peasants and landless labourers. And so the small and marginal peasants could not become viable producers as the special policy programmes aimed at doing so.

The post-1965 era also witnessed to the collapse of the Jajmani system which was the source to maintain social relations of personal dependence. The collapse of this system was obvious due to the expansion of monetisation and commodity production. But the emerging rich peasants, the dominant class, had to create certain conditions to pauperise the poor peasants and landless labour. Hence in the post-1965 era, money-lending and low wage rate maintained by the substitution of capital for labour, high ground rent and the use of family labour were the sources of pauperising them in the rural society. The other extra-economic source was the maintenance of caste-oriented traditions, customs and practices. In this way, dependency, i.e. the reproduction of paupers also continued. Thus the spurt of the new technology witnessed the emergence of a class-capitalist or progressive farmers - in the large farm sector of the agrarian economy varying from one area to another. High ground rent, money-lending, low wage payment and traditional social hierarchy continued to remain as the factors responsible for the reproduction of poor peasants, tenants and landless labours.

Before discussing the third strategy for agrarian development

(i.e. integrated rural development) let the following be mentioned for the sake of maintaining analytical continuity : firstly, the operation of the differential strategy led to the development of capitalist agriculture on the socio-economic infrastructures prepared during operations of the Integral Strategy at the colonial base of semi-feudalism which existed at the close of the British Raj; secondly, capitalism as system-moulding element occupied the place or role of its dominance in the agrarian economy but it also remained restrictive in effects because of the resistance put up by earlier modes of production or their elements against the development of capitalism in agriculture in its social formations.[29] The prevailing high ground rents, low wage rate, the mechanism of money-lending and trade and the traditional hierarchy of the village society were the forces which restricted the development of capitalism in agriculture; the effects of which vary from one region to another and from one area to another within a given region. Hence the State as the catalyst of social development had to remove these restrictive effects or forces. Moreover, such role was also expected to be played from the side of the State under the banner of socialism, Hence legislative measures were adopted by different State Governments to regualate agricultural wages and to remove the poor peasants and landless labourers from the clutch of moneylenders to whom they were indebted. But these measures were not enough to protect them from wheels of exploitation because of the extra-coercive forces created in the multi-structured economy of rural India.

The dialectics of the State between capitalism as the means of social development and socialism as the end of this development

ance put up by the earlier modes of production or their elements against the process of capitalist transformation of agriculture. Hence the efforts of the State to develop household and village industries on the basis of cooperative society formation of village artisans may lead to the pauperisation of the artisans because of the entry of capitalists from urban areas finding such ventures profitable with the marketability of the products in rural areas.[31] There are also many cases which show the entry of rich peasants and traders with their capital into the undertaking of industrial activities like oilseeds industry at the household level and their entry with subsidies from the State has thrown traditional oil more out of the race in the villages.[32] As a result, they are pauperised without having land or a minimum size of productive assets

The spatial process of planning for integrated rural development also implies the diversification of socio-economic activities in the process of rural development for releasing the pressures of excess or surplus population on agriculture. Hence the development of activities allied to agriculture such as dairying, sericulture, etc. is stressed for developing rural areas. The development of dairy in certain areas based on the system of cooperation has generated additional source of income in those areas. But dairy development being still land-based is not separate from agriculture and so it has helped the rich or progressive large farmers in strengthening the position of their dominance in a number of ways. The case of dairy development in Karnataka bears an evidence to this fact.[33] In many States, dairy development as a part of integrated rural development is still conspicuous because of the

dominant traditional hierarchy of the rural society and due to lack of rail road and communication development. This is also due to lack of initiative on the part of the State Governments. The success of dairy development in the regions like Gujarat, Karnataka, Punjab and Delhi shows that developing capitalist agriculture has been a factor for its success there. The reasons for the capitalist development of their agriculture need not be retold and repeated. This example also indicates that the success of the integrated rural development programme firstly depends on the development of capitalism in agriculture, i.e. the emergence and growth of progressive rich peasants. But when such programme is introduced in the capitalist developing agricultural areas, the rich peasants' entry gets institutionalised and as a result, the poor peasants and landless labour do not compete with them rather they fall in their hold. And so, the growing hold of the rich peasants makes them dependent.

All the three strategies for rural development reflect the efforts of the State in moulding the colonial creation of semi-feudalism into the development of capitalism in rural India. But all such efforts appear to be caught under their own contradictions which arise from the dialectical relations of the State between capitalism as the means of development and socialism as the end of that development. The former depends on the creation of suitable economic conditions (i.e. technological changes and progressive class of rural population). Once the efforts are made by the State in this direction, hetrogeneous class relations and interests cut across themselves at different points of time with conflicts and

clashes. As a result, the efforts produce restrictive effects of capitalist development in various forms and run through in different phases in different orders in rural areas. Given the constitutional framework of the political economy of India and so the characteristic pattern of State relations between the means and the end of social development, the socio-economic structure of production emerging from the operations of the different strategies of planning for rural development exposingly enwraps the following classes : (a) rural oligarchs (comprising rich peasants and landlords), (b) merchants and traders, (c) middle group of peasants, (d) poor peasants, landless labourers and artisans. The rural oligarchs occupy a place of dominance in rural areas as they command the main element of social material relationships in production in Indian agriculture. The merchants and traders are next to them in commanding order because they deal with the flow of marketable surplus of agricultural commodities produced in agriculture. That is why at one point, the interests of this class clash with those of the rural oligarchs but at some other point, both of them have to compromise with one another for keeping the last class under the clutch of their control. The middle peasants look forward to the rural oligarchs in anticipation of becoming their partners in the structure of power holding. But this speculation is not without causing the feelings of subordination to them and so it has led to uprisings among the people of this class who mostly come from the backward caste communities.[34] The people belonging to the last class constitute a vast mass of rural population and they continue to remain dependent on the rural oligarchs and also on the merchants and traders who reproduce condi-

tions to pauperise them. The reproduction of pauperisation conditions is, thus, a product of the dominance of the rural oligarchy in the operations of rural development resulting from the characteristic pattern of State relations between the means and end of that development.

## IV Why Rural Poor Remain Poor?

The characteristic pattern of the State relations between the means and the end of social development, as historically formed and determined from the part at the colonial base of semi-feudalism or socio-economic formations, produces a class basis of development in rural India. The class basis of development shows the existence of 'dominant material relationships', producing a dominant or ruling ideology of development (i.e. capitalism as the means of social development and socialism as the end of this development). And so, the economic conditions show how the rural oligarchs, traders and merchants strengthen the position of their dominance by dominating the material forces of the society; and how the poor peasants, landless labourers and artisans are reproduced by their dominant material relationships in production. The rural poor are reproduced by the dominant class (or classes), because its dominance in the socio-economic structure of production creates extra-economic conditions or compulsions to make the rural poor dependent on the dominant class. Hence the emerging conditions from the dialectical relations of the State between the means and the end of social development are responsible for the reproduction of poor (i.e. poverty in rural India).

The reproduction of rural poverty has its two forms - 'natural' and 'artificial'. The natural form of its reproduction is due to a low level of development of productive forces and due to the existence of semi-feudal relations in production which also characterise 'social relations of personal dependence' in village society. Hence according to P.C. Joshi, "the conflict between the rich and the poor does not assume a naked form because of the mystification of this conflict by the institutions of caste, village community etc."[35] The emergence of 'artificial' form of poverty is the product of the capitalist process of transformation. This process reproduces poverty by converting petty property owners into a propertyless class; and its growth outruns the growth of wage labour for a long period, 'indicating pauperisation without proletarianisation'. The capitalist process of transformation also reproduces artificial poverty or pauperises the rural poor by making terms and conditions or contractual modes of tenancy, loan and wage payment more favourable to the rich peasants or capitalist landlords (i.e. rural oligarchs) than to the poor peasants and landless labourers. The prevailing characteristics of land, credit-inputs, labour and commodity markets, which function and operate under the influence of the rural oligarchs, also favour them in dictating all such terms and conditions.[36] In other words, the dominant capitalist production relations correspondingly reproduce dependent agrarian relations leading to the pauperisation of the poor peasants and hired landless labourers. Thus artificial rural poverty accentuates as the product of the capitalist class basis of a rural development. All the parts of rural India have not equally experienced the process of capitalist

transformation and so artificial poverty is accentuated in the midst of natural poverty in rural India.

The class basis of rural development also shows how the prevailing characteristics of land, labour, credit, input and commodity markets are getting all the sections of rural population into 'a vortex of capitalism'.[37] At the same time, it also reflects the dominance of landlord-capitalist in rural areas; having monopolistic control over the supply of land and other productive assets and resources, the supply of agricultural output and its marketable surplus, and flow of institutional credit and modern inputs. Table 1 shows that the well-to-do peasants constituting 10.34 per cent of the total number of rural households operate more than half of the total area, hold 61 per cent of the total assets, obtain about half of the total flow of credit, command about 63 per cent of the gross value of output and 67 per cent of the total amount of marketable surplus. The same table also characterises their credit-worthiness, technical dynamism and commercial behaviour. The poor peasants and landless labourers who constitute a little more than 60 per cent of the total number of rural households cut a sorry figure in all respects. In this way, the same table displays the characteristic features of dominant and dependent agrarian production relations in rural India which are the result of the class basis of development owing to the characteristic relations of the State between the means and the end of social development, having formed at the colonial base of socio-economic formations.

Table - 1

Characteristics of Dominant and Dependent Agrarian Relations

| | Poor Peasants (0 - 2.49 Acres) | Small Peasants (2.50 - 9.99 Acres) | Well-to-do Peasants (10 Acres and above) |
|---|---|---|---|
| 1. Households (No.)[a] | 48.2 | 23.6 | 8.2 |
| (Per cent) | 60.26 | 29.50 | 10.24 |
| 2. Area operated (%)[a] | 9.25 | 37.55 | 53.20 |
| 3. Assets distribution (%)[b] | 3.00 | 36.00 | 61.00 |
| 4. Outstanding debt (%)[b] | 21.50 | 34.90 | 43.60 |
| 5. Distribution of cash debt among cultivator households[b] | | | |
| a. Institutional agencies | 5.7 | 28.6 | 65.7 |
| b. Non-institutional agencies | 18.5 | 40.3 | 41.2 |
| c. Both combined | 14.4 | 36.6 | 49.0 |
| 6. Fixed capital formation by cultivators (%)[c] | | | |
| a. Households | 41.0 | 52.6 | 6.4 |
| b. Total capital formation | 8.3 | 46.2 | 45.5 |
| 7. Purpose-wise credit requirements by cultivator household[b] (%) | | | |
| a. Fixed capital expenditure | 19.0 | 32.6 | 52.9 |
| b. Working capital expenditure | 10.6 | 14.8 | 19.0 |
| c. Household expenditure | 61.0 | 44.8 | 25.7 |
| 8. Gross value of output (%)[d] | 10.5 | 26.9 | 62.6 |
| 9. Share of marketable surplus (%)[d] | 5.4 | 27.8 | 66.8 |
| 10. Irrigation (%)[e] | 15.09 | 38.98 | 45.93 |
| 11. Area under commercial crops as percentage of gross cropped area[e] | 16.90 | 19.74 | 26.37 |

Sources : (a) NSS, 27th Round (1971-72); (b) All India Rural Debt and Investment Survey (1971-72), RBI; (c) All India Rural Debt and Investment Survey (1961-62), RBI; (d) "Contributions to the Output and Marketable Surplus of Agricultural Products by Cultivating Groups in India : 1960-61", Utsa Patnaik, EPW, December 27, 1975; and (e) Agricultural Census of India, 1970-71, Government of India.

Note : Relation Between Holding Size Groups and Asset-holding Groups

| | Holding Group (in Acres) | Asset Group (in Rupees) |
|---|---|---|
| a. | 0 - 2.49 | 0 - 2,500 |
| b. | 2.50 - 9.99 | 2,500 - 20,000 |
| c. | 10 and Above | 20,000 and Above |

An answer to the question, 'why rural poor remain poor', thus, does not lie in Lipton's thesis of urban-bias development[38] nor in theory of rural fundamentalism.[39] The theoretical framework of 'Agrarianism, Dualism and Development' is also incapable of answering this question.[40] On the contrary, all these theoretical explanations have led to posing the question of rural poverty as one of rural Vs urban, caste Vs caste, ruralism Vs industrialism. All these dichotomies in "the Indian context perform the ideological function of a mystifying force, keeping the poor in darkness about the social genesis of poverty and thus, thwarting their emergence as a socially conscious force".[41] The social genesis of poverty could be found from an inquiry into historical process of socio-economic formations which exist today from the past.

## Notes and References

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19. W.H. Sleeman, Rambles and Recollections of an Indian Official, London, 1844, Vol.II, p.143 but quoted from V.I. Pavlov, Historical Premises for India's Transition to Capitalism, (Nauka Publishing House, CDRL, Moscow, 1979), p.356.

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23. Ibid., p.9.

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25. Ranjit Sau, op.cit., p.10.

26. Please see A.R. Rajapurohit, 'Gandhian Programmes in Practice : Postmortem of a Gramdan Experiment' in B.C. Das and G.P. Mishra (eds.), Gandhi in Today's India, (Ashish Publishing House, New Delhi, 1979).

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32. Author's visit to a number of Northern Bihar villages regarding an ILO project and his impression bear a witness to this fact. All the oilmen (Teli caste) are found to have abandoned their traditional function of crushing oilseeds for oil extraction. The rich peasants are found to have installed rotary oil mills and baby expellers in their respective villages for extracting oil from oilseeds.

33. Please see author's unpublished mimeograph, Impact of Dairy Development in Rural Areas of Karnataka, Institute of Social and Economic Change, Bangalore, 1979.

34. Please see Pradhan H. Prasad, 'Caste and Class in Bihar', Economic and Political Weekly, Annual Number, 1979 in which he has shown how with newly acquired economic power, the middle and poor-middle peasantry comprising mostly middle (i.e. backward) castes have emerged a powerful class-in-caste in the political power structure in Bihar. The Lok Dal, which is under the leadership of the rich middle peasantry, is the mirror through which one can see this change in rural India.

35. P.C. Joshi, 'Perspectives on Poverty and Social Change : The Emergence of the Poor as a Class', Economic and Political Weekly, Annual Number, 1979, p.356.

36. In their paper 'Inter-linkage of Land, Labour and Credit Relations' in Economic and Political Weekly, Annual Number 1978, Pranab Bardhan and Ashok Rudra have empirically observed the existence of an interlinking system of land, labour and credit relations in the villages of Eastern India but without the presence of distinguishing features of feudalism. They say : "Needless to say, the economic constraints faced by the small share-cropper or the attached labourer are much more severe and they frequently push him into unequal relationships of mutual dependence with the landlord-credit-employer. But surely, unequal constraints and exploitation are not distinguishing features of feudalism as opposed to other modes of production". p.384.

37. Please see G.P. Mishra, "Process of Income Distribution in Agriculture", Indian Economic Journal, January - March 1977 and "Anatomy of Rural Unemployment and Policy Prescriptions", Indian Journal of Industrial Relations, October 1978.

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**WORKING PAPER**

Working Paper No.124

Some Speculations on Growth, Disparity and Capital Reorganisation in the Indian Economy *

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CENTRE FOR DEVELOPMENT STUDIES

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Some Speculations on Growth, Disparity and Capital Reorganisation in the Indian Economy*

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*The ideas expressed in this note have been thrown up in the course of extensive discussions with several friends and colleagues at the Centre for Development Studies, Trivandrum, especially Mr.R.Nagaraj and Professor K.N.Raj. However none of them can be held responsible for my speculations.

# Some Speculation on Growth, Disparity and Capital Reorganisation in the Indian Economy

Sudipto Mundle

Looking at the economy today, there is much cause for gloom and depression. After a sustained period of muddling along at a low and halting pace, the economy has now actually moved into the unbelievable zone of negative growth. Real National Income, measured in 1970-71 prices, registered a fall of about 5 per cent in 1979-80 (Rs.44,328 crores) compared to the previous year (Rs.46,636 crores).[1/] Allowing for an estimated population growth of about 2 per cent per annum, this amounts to an even sharper fall in real per capita income of the order of 6.8%.

It is true that a large part of this decline occurred in the agricultural sector. While foodgrain output declined by about 5.7 percent, oil seeds production fell by 13.6%, and sugarcane output fell by as much as 15.6%. If this were alone to account for the fall in real national income, the situation would not be so alarming since agriculture everywhere -- even in irrigated tracts -- is dependent on vagaries of the weather and therefore subject to sharp yearly fluctuations, irrespective of the intrinsic health of an economy. However, the current situation does not allow any room for such complacency. For, along with the average decline of 12.7 per cent in agricultural output, the economy has registered a substantial absolute fall in output in the sectors of manufacturing, railways and construction as well. In fact, the only sub-sectors of the national economy

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1/ These figures are based on the Quick Estimates of National Income just released by the CSO. See, The Hindu, of Jan.29, 1981.

which have recorded any significant growth are the service industries like transport (other than railways), communication and public utilities on the one hand and purely unproductive components like public administration and defence on the other. If these dubious components of national income were left out of the reckoning the actual decline in real per capita income based on material production estimates would probably be of the order of eight per cent or more. Alongside the decline in real national income, the investment rate in real terms has come down from 16.8% in 1978-79 to 14.4 per cent in 1979-80 giving us a decline of about 19% in the volume of real capital formation.

Coming as it does at the end of a long fifteen year period of slow and halting growth, there is no getting away from the fact that the economy is still in the throes of a deep depression. Clearly it is not a season for optimism. Speculation about the future in this gloomy air is open to a certain myopia -- a tendency to project too much of the present into the future. There are however some incorrigible optimists who would argue, as I shall argue, that there is a ray of hope. That in the long haul there is a real possibility for the process of capital accumulation to restore itself and for the economy to move into a trajectory of relatively higher growth. But what is likely to be there in such a recovery for the millions of Indian citizens, particularly in the rural sector, who live —or rather survive — in grotesquely inhuman conditions of existence? For them, as we shall see below, there can be no real hope of anything better in the forseeable future of this system.

## 2. A Digression on Crisis Theory

For exploring the prospects of a revived accumulation of capital in India, it is necessary to begin with a digression on crisis theory. In classical political economy the analysis of crisis in capitalist systems can be traced at least as far back as in the debates and correspondence between Malthus and Ricardo. But in the dominant tradition of modern economic analysis a theory of crisis appears only as recently as in Keynes' short period analysis of inadequate effective demand. What provides a direct lineage from the former to the latter, though this has never been recognised in the text books, is Marx's theory of accumulation and a particular interpretation of his theory of crisis which comes rather close to the Keynesian theory. This particular development of Marx's own theory, which for reasons explained below we may call the Realisation Theory of Crisis or simply Realisation Theory, has till recently been in the mainstream of Marxist theorising on the subject and can be primarily identified with the contributions of Sweezy, Kalecki, Sweezy-Baran and Steindl.[2]

What is common to these theories is their focus on the non-realisation of profit or the surplus because of an inadequacy of aggregate demand. It is easy to see how closely this resembles the

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2/ See, Paul Sweezy - The Theory of Capitalist Development, Monthly Review Press edition, 1968; Michael Kalecki - Selected Essays on the Dynamics of the Capitalist Economy, Cambridge University Press, 1971; Paul Baran and Paul Sweezy - Monopoly Capital, Monthly Review Press, 1966 and Josef Steindl, Maturity and Stagnation of American Capitalism, Monthly Review Press edition, 1976.

more familiar Keynesian theory of inadequate effective demand. It is also important to stress that, at least in the case of Kalecki and Steindl, it is investment that leads the whole movement, recession and a secondary decline in investment following from a primary fall in investment. Here again Realisation Theory is at one with the Keynesian theory and the closeness of the two theories is perhaps revealed most strikingly in Kalecki's original work, completed about the same time as Keynes, where he independently established all the major short period propositions of Keynes. However, the parallels between Realisation Theory and Keynesian theory ought not to conceal their major differences.

For one thing, while Keynes was concerned with a short period analysis, Realisation Theory - except in the case of Kalecki - was distinctly concerned with the long run secular tendencies of the accumulation process. Even in the case of Kalecki, he grew increasingly unhappy with his separation between the analysis of short period business cycles and the trend, his last major contribution on the subject being an attempt to offer a unified theory of trend and the business cycle.3/

The second feature, and for my purpose the more significant one, which unifies the Marxian Realisation theories while at the same time distancing them from Keynes is their recognition of monopoly or oligopoly as the characteristic structure of markets. Keynes seemed to rest his macro theory on a micro level foundation of more or less competitive markets. The Realisation theories, on the other hand, based

3/ See his 1968 essay, Trend and the Business Cycle, reprinted as chapter 15 of his Selected Essays, op.cit.

themselves explicitly on a recognition of market concentration and on the formation of prices and the distribution of income arising out of such concentration. They developed a theory of accumulation which located the origin of secular crisis in the development of monopoly. It is interesting to note that this emphasis on the development of monpoly, which distances Realisation Theory from the Keynesian theory also distances the former from Marx's original theory of capital accumulation and crisis. We shall return to this later. But so far as Keynesian theory itself is concerned, it is important to note that subsequent developments in this tradition were strongly influenced by Realisation Theory, in particular the work of Kalecki. It is not surprising therefore that the Post-Keynesian analysis of contemporary capitalism and its future prospects is rather similar to the recent conclusions of Realisation Theory.4/ Both Kalecki and Steindl, for instance, in their more recent contributions have tended to leave the long term prospects of industrial capitalism rather open ended and dependent not only on the capacity of the State to set the level of investment and the distribution of income but more fundamentally on the autonomous and purely chance phenomenon of continuing technical progress. Schumpeter has been rediscovered.

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4/ For the main features of this emerging paradigm see, Alfred Eichner, (ed.) A Guide to Post Keynesian Economics, M.E. Sharpe Inc. N.Y., 1979.

5/ See, for instance, the articles reprinted in Part III of Kalecki's Selected Essays, op.cit. Especially the essay on Trend and the Business Cycle. See also, Steindl's new Introduction to the 1976 edition of his Maturity and Stagnation in American Capitalism, or his article Stagnation Theory and Stagnation Policy, Cambridge Journal of Economics, March, 1979.

I have said earlier that the emphasis on the development of monopoly, both at the level of aggregate social capital as well as in the market structures of individual industries, which distances Realisation Theory of the Marxian tradition from Keynes also marks the point of departure for this theory from Marx's own analysis of crisis. The reason for this departure would seem to be that while Marx's own analysis of the laws of capital accumulation led him to forsee the development of monopoly he did not, and indeed could not at the time when he was writing, analyse the new 'rules of the game', the mechanism of the accumulation process consequent upon the development of monopoly.[6/]

Overshadowed by this dominant Marxist tradition there has existed however a more fundamentalist Marxian tradition dating back to the year of the Great Crash.[7/] Revived in recent years in the work of Mattick, Yaffe, Rosdolsky and others, this alternative tradition would hold that the development of Monopoly — or for that matter Imperialism — does not require a modification of Marx's theory of accumulation and crisis.[8/]

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6/ See, for instance, Chapter XV, "Monopoly and the Laws of Motion of Capitalism" in Sweezy "The Theory of Capitalist Development," op.cit.

7/ The book 'Das Akkumulations - und Zusammenbruchsgesetz des Kapitalistischen Systems, published by the German Marxist scholar Henryk Grossman in 1929. So far as I am aware no published English translation of the book is as yet available.

8/ See, for instance, P. Mattick, Marx and Keynes: Limits of the Mixed Economy, Merlin Press, London, 1969; D.S. Yaffe - The Marxian Theory of Crisis, Capital and the State, Conference of Socialist Economists Bulletin, Winter 1972, and R. Rosdolsky - The Making of Marx's Capital, Pluto Press, London, 1968.

According to this fundamentalist interpretation of Marx's theory of accumulation and crisis, which I shall call the Overproduction of Capital Theory or simply Overproduction Theory, capitalist production is nothing but the production of surplus value or, what is really the same thing if we ignore capitalist consumption, the production of capital. This holds regardless of the structure of aggregate social capital and its component parts in the different branches of production. As such the analysis of capital production, so the argument runs, is not specific to the 'competition' stage of capitalism but applies generally to the entire historical domain of capitalist production including the structure of competition as well as monopoly and imperialism.

This general analysis states that at any given time in capitalist production an existing mass of capital is employed to produce more capital, the ratio of the new capital produced to the original capital employed giving the aggregate rate of profit, which is also the rate of expansion of capital (we are ignoring capitalist consumption). Now it is obvious that as the aggregate mass of capital expands or accumulates the mass of surplus or new capital produced by the accumulated capital should also grow, the precise relationship between the two at any time being given by the ratio of the rate of exploitation (s) to the organic composition of capital (o) plus one i.e., $s/(1+o)$. However there is nothing to ensure that the mass of surplus value will expand at the same rate at which the total mass of capital which produces it expands. And it can be easily shown that whenever the rate of expansion of the mass of surplus value exceeds the rate of accumulation of total capital, the rate of capital accumulation - or

the rate of profit — itself must be rising, i.e., a period of boom. This process will exhaust itself once the heightened rate of capital accumulation has exceeded the rate of expansion of the surplus and now the reverse process will be set in motion for it is again easily shown that whenever the rate of expansion of surplus value is lower than the the rate of total capital accumulation, the rate of capital accumulation — or the rate of profit — will be falling, i.e., a period of recession. The end of this period of recession marks the crisis of accumulation. The mass of existing capital at this point "is simultaneously too small and too large, it is too large in relation to the existing surplus-value and it is not large enough to overcome the dearth of surplus value" (Mattick, 1969, op.cit. p.68). There is in other words an overproduction of capital and the new capital can no longer be valorised. A part of the mass of accumulated capital is now laid waste, devalued — possibly even physically destroyed — and above all reorganised such that the rate of exploitation is raised to a new high, the organic composition of capital modified and the rate of profit restored so that a new programme of accumulation can begin. This is the on-going cycle of capital production on an ever expanding scale. All that is required is that capital is able to fully reconstitute and reorganise itself at the end of each cycle so as to restore the rate of profit and that the fundamental relationship defining the system, i.e., the subordination of labour to capital, is itself not distroyed

It will be obvious here that the base of accumulated capital on which each cycle begin is always larger than the base on which the previous cycle began — the system is on an escalating scale. Consequently the magnitude of the crisis at the end of each cycle also tends to be more and more severe in an absolute sense. And the deeper the crisis the greater is the order of capital reorganisation required to restore the programme of accumulation. The transition from Competition to Monpoly Capital and the internationalisation of capital, i.e., Imperialism, would be seen in this theory as the major phases of this reorganisation of capital on an ever expanding scale.

It is possible to argue, and with some justification, that the Overproduction Theory of Crisis just outlined is not very different from the Realisation Theory discussed earlier. That the two are really reformulations of the same theory at different levels of abstraction - one specific to the monpolistic market structure and the other more general - and with some differences in emphasis. For after all the non-valorisation of capital in Overproduction Theory is in effect the failure of surplus realisation consequent upon insufficient demand in Realisation Theory. Nevertheless, I would maintain that Overproduction Theory, precisely because it is not elaborated in the context of the specific structure of monopoly capital but at a more abstract level encompassing the entire historical domain of capitalism, offers a more useful point of departure for another specific theory of accumulation and crisis specific to the Indian economy with its own peculiar mix of a backward agrarian sector, an increasingly oligopolistic industrial sector and the state capitalist sector all meshed together in a dependent economy on the periphery of world capitalism.

### 3. Capital Reorganisation and the Resumption of Accumulation

It is not my purpose here to attempt this formidable task, i.e. build a new theory of accumulation and crisis specific to the Indian economy. Suffice it to say that the abstract over production theory, in stressing the direct causality between the crisis of accumulation and the reorganisation of capital, offers a useful clue for exploring the prospects of growth and accumulation in the near future on the basis of the experience of crisis in the recent past. I would offer the hypothesis that the period of stagnation -- or structural retrogression as it has sometimes been called [9] -- has also been a period of very substantial reorganisation of capital, of shifts in direction before a new phase of accumulation can begin.

This reorganisation of capital is probably still underway and is going on at several levels. What follows in this section is largely an attempt to offer a picture, however tentative and sketchy, of these different levels of capital reorganisation and their implications. The hypothesis being offered is only a working hypothesis and I am aware that the evidence I have to offer at this stage is piecemeal and inconclusive. I have drawn quite substantially upon the data put together by Dr.Shetty in his work referred to earlier. His phenomenal assembly of facts, it seems to me, is the most comprehensive body of data so far available on the question of stagnation.

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9/ See, S.L.Shetty, Structural Retrogression in the Indian Economy, Economic and Political Weekly, Reprint, Bombay, 1978.

This same body of data offers, however, many clues that this period of structural retrogression is also a period of substantial structural reorganisation preparatory to a new phase of accumulation.

(a) Concentration in Market Structure

The first and most obvious direction of capital reorganisation in the face of crisis is of course a rise in the centralisation and concentration of capital. This phenomenon, originally identified by Marx, was later brilliantly documented in the case of American capitalism by Steindl. Typically, starting with a competitive structure within individual markets, price competition intensifies with the development of crisis and marginal firms with higher costs or lower profit margins are taken over or forced out of the market while the most competitive firms are able to enlarge their share of the market. At the end of a crisis, therefore, markets are more concentrated than at the beginning of the crisis. And as the history of growth, booms and depression proceeds, markets get more and more concentrated leading to the emergence of oligopoly. Corresponding to this concentration within individual product markets, of course, there is the associated concentration of aggregate social capital leading the system to a stage of monopoly capital. All this is well known. It is also known that once oligopolistic structures have developed, this competitive mechanism ceases to work so smoothly and growth becomes difficult. For, the remaining firms are each too powerful to be squeezed out by price competition and all that results is a diminished margin of profit across the board without any compensating gain of market share. Steindl has also interpreted this late or mature period of American Capitalism

as one where further accumulation simply meant investment in more excess capacity.[10]

What concerns me here is that in the presently industrialised capitalist economies this period of mature or concentrated market structures and the consequent stagnation set in at a relatively late stage of development when the economies were already substantially industrialised. Till that stage was reached, the normal competitive mechanism could work in response to a crisis and industrial growth could proceed along with the concentration of markets. In the Indian context this particular route of capital reorganisation was closed off at a very early stage of industrialisation, the concentration having in some sense preceded the whole industrialisation process.[11] The structure of Indian monopoly capital as analysed in the work of Hazari, the Monopolies Enquiry Commission and the Industrial Licensing Policy Inquiry

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10/ The realism of this apparently absurd process has been questioned recently in an interesting paper by Patnaik and Sanyal. See P. Patnaik and A. Sanyal - Some Notes on Monopoly and Accumulation (mimeo), Centre for Economics and Planning, Jawaharlal Nehru University, New Delhi.

11/ Why this happened is a complex question tied up with the whole conjuncture in which India began to industrialise, i.e. the structure of capital inherited from the colonial period, the situation of a late-comer nation in industrialisation, technological dependence, the relationship between the state and state-capitalist sector on the one hand and large capital on the other. This is a problem I do not wish to pursue here. For an interesting theory touching on many of these issues, see, Meir Mehrav - Technological Dependence, Monopoly and Growth Pergamon Press, Oxford, 1969.

Committee is widely known.[12/] An analysis of the concentration of market structures in selected industries based on the ILPIC report is presented in Table 1. Crude as the estimates are, they are quite effective in conveying a picture of how oligopoly had spread across a wide spectrum of industries by the time of the ILPIC exercise.

Table 1

MARKET CONCENTRATION IN SELECTED INDUSTRIES

| Name of the Group | Total Number of Products | Number of Products Where Top Four Firms Control: 100% of Output | Over 75% of Output |
|---|---|---|---|
| (0) | (1) | (2) | (3) |
| 1. Automobile & Allied Industries | 102 | 96 (94) | 101 (99) |
| 2. Drugs & Pharmaceuticals | 97 | 90 (93) | 96 (99) |
| 3. Insecticides, Plastics & Plastic Chemicals | 114 | 105 (92) | 113 (99) |
| 4. Alkalies and Allied Chemicals | 20 | 18 (90) | 18 (90) |
| 5. Acids, Fertiliser and other Chemicals | 132 | 116 (88) | 130 (98) |
| 6. Cellulose & Timber | 17 | 14 (82) | 15 (88) |
| 7. Tools | 66 | 54 (82) | 65 (98) |
| 8. Light Mechanical Engineering | 93 | 74 (80) | 89 (96) |
| 9. Instruments | 19 | 15 (79) | 19 (100) |
| 10. Industrial Machinery | 71 | 54 (76) | 70 (99) |
| 11. Dyes, Explosives, Coke byproducts & distillation products | 42 | 31 (74) | 42 (100) |
| 12. Alcohol & Organic Chemicals | 27 | 20 (74) | 25 (93) |
| 13. Metallurgical Industries | 71 | 50 (70) | 67 (94) |
| 14. Rubber Manufactures | 75 | 50 (67) | 74 (99) |
| 15. Oil, Soaps, Paint & Feed | 95 | 61 (64) | 88 (93) |
| 16. Mineral Industries | 52 | 29 (56) | 43 (83) |
| 17. Heavy Chemical Engineering | 15 | 7 (47) | 13 (87) |
| 18. Electrical Engineering | 39 | 17 (44) | 33 (85) |
| 19. Leather Manufacture | 9 | 4 (44) | 8 (87) |
| 20. Paper Industries | 14 | 5 (36) | 11 (78) |

Source: N.S.Sidharthan - Technology, Market Structure and the Deceleration in the Growth of Capital stock in the Indian Engineering Industries, SCRIER Conference, 1980 (mimeo.), Figures in Parenthesis give percentages of corresponding totals in column1.

12/ See R.K.Hazari - The Structure of the Corporate Private Sector, Asia Publishing House, Bombay, 1966; Report of the Monopolies Enquiry Commission, Manager of Publications, Delhi, 1965 and Report of the Industrial Licensing Policy Inquiry Committee, Manager of Publication, New Delhi, 1969.

Notice that what these studies caputre is by and large a picture of concentration that had already occurred by the early sixties. By the time the crisis of the mid-sixties set in, therefore, the natural response mechanism of capital reorganisation through further market concentration was no longer available unlike in the case of Western capitalist economies at a comparative stage of industrialisation. I do not of course mean this in any absolute sense. Undoubtedly, concentration of markets and capital has gone on during the last fifteen years and this would probably show up when the relevant data is assembled. What is sought to be emphasised is that since a high degree of concentration had already occurred as it were prematurely, the space available for capital to further reorganise along these lines was obviously limited. Since capital reorganisation at this level of market structures could not now serve as an adequate means of response to the crisis, capital was therefore forced to turn to another more fundamental and long gestating form of reorganisation before normal growth could be resumed.[13/]

(b) <u>Transformation of Industrial Structure</u>

The second level of capital reorganisation, and the one which seems to me to be the <u>main</u> response of capital to the current crisis, is a transformation of the industrial structure. What the aggregate picture of slow growth, stagnation etc. conceals is considerable dynamism

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13/ It is in view of the argument presented in this para, among other reasons, that I feel that a Realisation Theory of the Stiendl type which has served so well to understand the mechanism of accumulation and stagnation in the context of USA etc. - at least upto a certain stage in their development - is not the best framework in which to view our own stagnation crisis and the possible forms of its resolution. Perhaps it is better to start with Marx's more abstract general theory and climb down directly to a <u>specific</u> theory of accumulation and crisis in the Indian economy.

in the industrial structure of the system. It is certainly true that since the mid-sixties most industries grew at much slower rates than during the early import substituting phase which ended by the first half of the sixties. But within the industrial structure some industries have grown much faster than others such that the structure of industries we have today is quite different in terms of relative weights compared to that which obtained some twenty years ago.

As a first clue to this transformation it is instructive to look at the rate of investment. It is often argued that in view of the differential rates of price changes and the volatility of the inventory component of investment which absorbs the first shocks of changes in demand conditions, estimates of aggregate net capital formation at current prices are not very meaningful. In Table 2 we have reproduced Shetty's estimate of Net Fixed Asset Formation as a percentage of Net Domestic Product, measured at constant prices, during the sixties. It will be noticed that by this estimate the rate of real investment appears to have been remarkably stable over a period during which the rate of growth of output fell very sharply from the peak rates of the early sixties to the low rates since the mid sixties. Less conservative estimates of the investment rate for recent years show that the investment rate has tended to be quite high while output growth has continued to be slow. Generally the implicit rise in the incremental capital:output ratio has been attributed to increasing inefficiencies in the system, lower rates of capacity utilisation, cost overruns on new investment projects, etc. While all this may be true it must be recognised that the rising capital-output ratio also reflects a

genuine change in the composition of investment -- a shift in favour of more capital intensive industries. We shall return to the implications of this tendency later.

Table 2

Percentage of Net Fixed Assets Formation to Net Domestic Product

( Market Prices, 1960-61 )

| Year | Percentage | Year | Percentage |
|---|---|---|---|
| 1960-61 | 9.7 | 1968-69 | 11.3 |
| 1961-62 | 8.7 | 1969-70 | 11.9 |
| 1962-63 | 9.6 | 1970-71 | 10.8 |
| 1963-64 | 10.1 | 1071-72 | 10.9 |
| 1964-65 | 10.7 | 1072-73 | 11.8 |
| 1965-66 | 13.4 | 1073-74 | 11.8 |
| 1966-67 | 13.9 | 1974-75 | 11.0 |
| 1967-68 | 11.7 | | |

Source: S.L. Shetty - Structural Retrogression in the Indian Economy. Econ. & Pol. Weekly reprint, 1978, table 30.

Meanwhile we have estimates of annual compound rates of growth of major functional groups of industries for different sub-periods between 1961 and 1973 reproduced in Table 3. It will be evident that except in the years 1966-68 basic industries and capital goods industries have grown faster than consumer goods as a whole. Within consumer goods durables, consumed mainly by the upper income groups, have grown faster than non-durables. However Table 3 is still a very aggregative picture

Table 3

Annual Compound Rates of Growth of Major Industrial Groups in the Index of Industrial Production

| Industry Group | Annual Compound Rates of Growth | | | |
|---|---|---|---|---|
| | 1961-73 | 1961-65 | 1966-68 | 1969-73 |
| (0) | (1) | (2) | (3) | (4) |
| 1. Basic Industries | 6.72 | 10.4 | 5.9 | 5.2 |
| 2. Capital Goods Industries | 4.76 | 19.5 | -4.8 | 5.4 |
| 3. Intermediate Goods | 3.89 | 7.0 | 1.9 | 3.4 |
| 4. Consumer Goods | 4.07 | 5.0 | 1.1 | 4.2 |
| (a) Consumer Durables | 9.08 | 10.7 | 8.5 | 4.4 |
| (b) Consumer Non-durables | 2.81 | 3.8 | -0.9 | 4.1 |
| General Index | 4.88 | 9.00 | 1.60 | 4.50 |

Source: Studies in the Structure of Indian Economy and Planning for Development, Planning Commission, 1977, table 9.

distorted by the atypical performance of individual industries with a large weightage within the major functional groups. A more detailed industry-wise table given in the Appendix shows that within Basic Industries old industries like iron & steel and mining & quarrying which have large weights have done very badly. By contrast, electricity generation and some relatively new industries like heavy chemicals, fertilisers and aluminum have grown much faster. If the large but atypical industries like iron & steel and mining & quarrying

were kept out Basic Industries as a group would appear to have grown much faster. Exactly the same holds for railway equipment in the Capital Goods sector which has a large weight and showed negative growth from the mid-sixties to the early seventies. Relatively new industries like machinery production, power equipment, cables and wires etc. have grown much faster. The group would therefore show a much higher growth if railway equipment were left out. The peculiar case of slow growth in the Intermediate Goods sector again seems to be largely attributable to cotton spinning and jute manufacture which have done very badly compared to the other industries in this group but completely dominate the group in terms of weighting. In short older and therefore much larger industries seem to have grown very slowly and their performance dominates the picture of aggregate performance in the manufacturing sector. In contrast the disaggregative picture shows a large number of relatively new industries whose relative weights are still low but which have been growing much faster. These seem to be mainly industries concentrated in the chemical, machine building and electrical goods sector. This includes electrical appliances, communication equipment, motor cycle etc. classified under consumer goods.

These differential growth rates of old and new industries which show up so clearly at the disaggregated level are already beginning to reflect themselves even at the aggregative level. Reproduced here in Table 4 is the changing weighting pattern of the major functional groups of industries in the index of industrial production. While the share of capital goods industries increased by nearly four times from 4.71% in 1956 to 16.76% in 1976, the share of basic industries also went up

Table 4

Changes in Weights of Major Industrial Groups in the Index of Industrial Production

| Industry Group (0) | 1956 (1) | 1969 (2) | 1965 (3) | 1970 (4) | 1976 (5) |
|---|---|---|---|---|---|
| 1. Basic Industries | 22.13 | 25.11 | 26.84 | 32.28 | 36.14 |
| 2. Capital Goods Industries | 4.71 | 11.76 | 18.67 | 15.74 | 16.76 |
| 3. Intermediate Goods | 24.59 | 25.88 | 23.60 | 20.95 | 19.27 |
| 4. Consumer Goods | 48.37 | 37.25 | 30.89 | 31.03 | 27.83 |
| (a) Consumer Durables | - | 5.68 | 6.15 | 2.92 | 2.78 |
| (b) Consumer Non-durables | - | 31.57 | 24.75 | 28.11 | 25.19 |
| General Index | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Source: S.L.Shetty, op.cit. table 8.

substantially from 22.63% to 36.14% over the same period. In contrast the share of consumer goods has come down drastically from 48.37% to 27.83%. Within consumer goods the share of durables has fallen from 5.69% in 1960 to 2.78% in 1976. That of non-durables came down from 31.97% in 1960 to 25.19% in 1976. The share of intermediate goods industries also has come down from about 25% in 1956 to just under 20% in 1976. But we have seen already that this is largely due to the slow growth of just two industries, i.e., jute manufacture and cotton spinning.

It should be clear by now how capital has been reorganising itself in the industrial structure and where the new investments are going. These major changes in the industrial structure have some far reaching implications. I would like to note some of them briefly:

(i) The structural transformation of Indian manufacturing industries, the shift from old and stagnating industries to new and rapidly growing ones, entails a reorganisation of the aggregate social capital on a much wider and more fundamental scale than the concentration of markets in existing industries. As such it is a much more time consuming process than the market concentration which occurs between the end of one boom period and the beginning of another. The crisis which manifests itself in the interregnum while capital reorganises at the level of industrial structure rather than the market structure is therefore much longer — in our present experience a crisis which has lasted already for over fifteen years. This gloomy picture of stagnation at the aggregative level notwithstanding, it should be obvious that if the trends presently discernable at the disaggregated level persist then in the not so distant future - once a certain critical weighting balance between old and new industries is passed — the growth rate of the manufacturing sector as a whole should increase substantially.

(ii) In terms of an input based classification of industries there seems to be a very clear shift of the manufacturing sector away from the primary input based industries. Particularly away from the agro-based industries, but also away from industries based on mining, quarrying and the processing of some of these basic ores. That is to say,

industrial capital seems to be detaching itself from the primary sector, particularly agriculture, in its backward linkages. To the extent that it succeeds in doing this, the slow growth of that sector will cease to act as a drag on manufacturing growth on the supply side.

iii) However, in another sense a reverse process is also in the making. By their very nature the new industries are energy intensive. As such the energy coefficient of manufacturing will continue to go up as the new industrial structure gradually establishes itself. Whatever the manner in which the energy is consumed, so long as we continue to depend on fossil fuels like coal and petroleum the supply of these primary sector products will appear more and more as basic physical constraints to the accumulation of industrial capital. Already today power shortage has become chronic in several States in the country and it is no coincidence that industrialists repeatedly point to the coal-railway-electricity complex as the source of their problems. It is simply a roadblock which capital is actually experiencing in its attempt to transform the industrial structure.

iv) A fourth characteristic of the emerging industrial structure, already noted earlier, is the shift to capital-intensive industries and to more capital-intensive techniques within industries. This entails at the same time a decline in the labour component in manufacturing industry. The sluggishness of employment growth has been widely noted. What bears emphasis is that while the average annual growth rate of employment in the overall economy came down from about 6.8%

in 1961-66 to only 2.5% in 1966-77, it fell even more sharply in the manufacturing sector from 6.7% to as little as 1.7% between the same periods (see Shetty op,cit, table 24). A point much emphasised by Shetty in his analysis of structural retrogression, this trend may continue even when the overall growth rate picks up and not much purchasing power is likely to find its way to the large mass of consumers — a point we shall return to latter.

v) Finally by the end of this phase of capital reorganisation, the accumulation of capital will be much less dependent on the level of consumption demand -- especially the demand for mass consumer goods. As noted in the preceding para, the emerging new industrial structure is unlikely to create much purchasing power among the large mass of consumers. However this is unlikely to hamper the accumulation programme very much since it would in any case have detached itself to a large extent from the market for mass consumer goods. The share of consumption goods in the final output of the manufacturing sector has already come down substantially and this process is likely to continue as the new industrial structure establishes itself.

c. Ancilliarisation and Dualism

While the transformation of the industrial structure serves as the principal level of capital reorganisation in the current crisis, there is another kind of reorganisation which is underway in the organisation of production within individual industries. This is the process of ancilliarisation or sub-contracting. Wherever this is

technologically feasible as in discrete processing, fabrication and assembly type industries, provided cost efficient production levels are attainable within relatively small sized plants, corporate capital finds a number of advantages in farming out the earlier stages of production to small ancilliary units while itself undertaking only some strategic stages of production such as the final assembly. Principally, those advantages would relate to: (i) Savings in capital equipment, inventories and working capital upstream in the production process. (ii) The elimination of a whole range of problems in personnel management and industrial relations which arise typically in large organisations where workers can unify in large trade unions and enhance their bargaining positions vis-a-vis management, where protective factory and labour legislation apply, etc. (iii) The use of the ancilliaries as shock absorbers with the brunt of the impact of market fluctuations being passed on to them. (iv) Having them compete with each other for the orders as well as assistance from the apex firm so as to ensure minimum costs. Not being saddled with large overheads, and also being beyond the coverage of various protective industrial labour laws, the small ancilliary units are often able to operate with lower costs.

For these reasons it is believed that capital in the large scale organised sector is increasingly linking itself to small units for ancilliary production. This marks a major qualitative change in the whole character of small scale production in India from the traditional forms of independent household production to that of satellite

units producing for large firms. There is in other words a tendency towards the development of a new kind of dualistic production structure where an organised sector of large scale production with low employment, high wages, high productivity and high mark-ups is organically linked to an unorganised sector of small units with low wages, or even employing mainly family labour, and very low mark-ups over cost. It is not necessary that small units should have either low capital intensity or low productivity. Though this may be the case initially, both may be expected to rise with careful technical and financial assistance from the principal firm.[14/]

There are of course some clear technological limits to these trends. Technologies requiring large units or those which have little scope for breaking up the production process into discrete stages would rule out ancilliarisation or the kind of monopsonistic structure of intermediate markets described above. There is however another form in which large corporate capital can exercise control over small production in general — and this is by taking over the marking function or distribution of the product without getting involved in production at all. Typically small scale producers find it difficult to undertake their own marketing and generally tend to leave the marketing to other agents. Systematic data is not available. But the data given in table 5, pertaining to the Agra region, shows for

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14/ There is indeed some evidence to suggest that capital intensity in small units is often quite high. See J.C.Sandesara - Size and Capital Intensity in Indian Industry. Bombay University Press, Bombay, 1969.

Table 5

Percentage Share of Distributor Sales to Total Sales
Small Scale Industries in the Agra Region

| Industry | Distributor Sales (%) |
|---|---|
| 1. Paper and allied products | 23.7 |
| 2. Scientific instruments and chemicals | 17.9 |
| 3. Agricultural implements | 89.7 |
| 4. Steel Furniture | 31.5 |
| 5. Leather and rubber products | 81.5 |
| 6. Glassware and pottery | 55.0 |
| 7. Radios and transistors | 23.5 |
| 8. Readymade garments | 40.9 |
| 9. Plastic products | 89.5 |
| 10. Miscellaneous | 60.0 |
| Average for all industries | 68.8 |

Source: S.P. Mathur - Economics of Small Scale Industries. Sundeep Prakashan, New Delhi, 1979, table 33.

instance that nearly 70% of the marketing is left to distributors. If this marketing function in specific small scale industries is systematically taken over by large firms it is easy to see that once again a monopsonistic structure analytically similar to the ancilliarisation case discussed earlier would appear. A few large buyers would use their market power to purchase the products at prices leaving very low margins to the large number of small producers and then add large mark ups of their own to sell as oligopolists in the next stage of the marketing channel.

Much of what has been said here is impressionistic and systematic evidence is not easily available, especially for the period since the mid-sixties which is the relevant period for our hypothesis. There are however some fragments of evidence which suggest that the kind of reorganisation we have discussed has in fact occurred, leading to a rapid growth of small scale industries since the mid-sixties. A recent study states for instance:

> "Since 1965, there has been an even more significant growth in the investment, employment, output and contribution to the national income made by the small scale sector .... it employs about 50 per cent of the total factory labour of the country ... it is pertinent to point that the small industry is providing an increasingly larger share of the ancilliary components to large industry." 15/

Similarly, estimates given by a study of small industry in Rajasthan, reproduced here in table 6, show that growth of the number of small scale industries registered with the directorate of industries in that State fell drastically throughout the sixties but had again started rising very sharply by the early seventies.

Another estimate for Maharashtra, one of the main regions where ancilliarisation has occurred on a wide scale, states that the number of small scale units have increased by around 800% from only 4,860 units in 1961 to some 43,851 units in 1977. The number of workers employed in these units accordingly increased from 90,700 to 599,000 over the same period. 16/

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15/ See Ram K. Vepa - Small Industry in the Seventies. Vikas Publications, Delhi, 1971, p.25.

16/ Labour Gazette report cited in J. Banaji - "Accumulation and Exploitability - Some Notes for a Study of Industrial Capitalism in India", Paper presented to the UNITAR Conference on Alternative Development Strategies and the Future of Asia held in New Delhi, March, 1980.

Table 6

Small Scale Units registered with Directorate of Industries, Rajasthan

| Year ended | No. of Units | Period | %Change (Annual Average) |
|---|---|---|---|
| 1956 | 356 | | |
| 1961 | 1,956 | 1956-61 | 90 |
| 1967 | 5,721 | 1961-67 | 32 |
| 1971 | 8,970 | 1967-71 | 14 |
| 1973 | 18,975 | 1971-73 | 56 |

Source: H.S.Pareek - Financing of Small Scale Industries in a Developing Economy, National Publishing, Delhi, 1978; table 2.4.

Finally we have an interesting table in Shetty's earlier cited work, which gives the quality composition of cotton cloth production at different points of time. It will be noticed that the production of mill-made cotton cloth has been delcining absolutely right from the mid-fifties while its quality composition has also not changed much, coarse and lower medium varieties still accounting for about 43% of output. On the other hand handloom and powerloom production outside the organised mill sector has increased nearly 2.5 times over the same period. Consequently in the cotton cloth production industry as a whole the unorganised sector which accounted for roughly 25.5% of the total output in 1956 had doubled its share to 51.1% by 1976.

I am aware that the fragments of evidence just presented are open to various interpretations and by no means conclusive. Nevertheless, confirming as they do our a priori expectations, it seems reasonable to suggest that a certain dualistic structure of production is establishing itself where the small scale sector is not only growing alongside the so called organised sector but is in fact getting organically linked to the latter either in terms of actual ancilliarisation or through the take-over of the marketing function as major operations by the large firms.

This third level of capital reorganisation, the creation of a dualistic but at the same time interlinked production structure, is probably quite recent --at least as a general phenomenon -- and quite different from the traditional type of small industries. As such the process has neither been substantially documented nor have its full implications been properly explored. We have before us however the interesting historical experience of Japan.

Historical comparisons are always fraught with the danger of mechanically projecting the experience of one historical conjuncture across time and space to another conjuncture without adequately recognising the specific differences between the two. Especially in the case of comparing Japan's industrialisation experience with our own it has often been pointed out that during forty years or so at a very crucial stage of its industrialisation Japan was an imperial power while India is not. The contrast on this ground is probably overdrawn since what

Table 7

Quality Distribution of Cotton Cloth Production

(million metres)

| Year (0) | Total mill production (1) | Of which coarse & lower medium cloth production (2) | Handloom and power-loom production (3) | Total cloth production [(1)+(3)] (4) | %share of unorganised sector [(3)/(4)] (5) |
|---|---|---|---|---|---|
| 1951 | 3727 | | 1013 | 4740 | 21.4 |
| 1956 | 4852 | | 1663 | 6515 | 25.5 |
| 1961 | 4701 | 2318 (49.3) | 2372 | 7073 | 33.6 |
| 1966 | 4239 | 1850 (43.6) | 3097 | 7336 | 42.2 |
| 1971 | 3957 | 1541 (38.9) | 3399 | 7356 | 46.2 |
| 1976 | 3881 | 1683 (43.4) | 4064 | 7945 | 51.1 |

Source: S.L.Shetty - op.cit, table 12.

what Japan gained in terms of raw materials and markets in Taiwan, Korea and Manchuria, India in any case has within her own national economy given the fact that we are not a small island economy. What is more to the point, it seems to me, is the particular economic structure India inherited from her long Colonial past -- a legacy which Japan never had to grapple with in her drive to industrial maturity.

I do not see, however, why this particular difference in the initial conditions of industrialisation should render illegitimate the particular comparison I have in mind, namely the emergence of a dualistic structure of the kind discussed here in the organisation of industrial production. There is some evidence to indicate that there is a distinct contrast here. As I have suggested above, this particular form of capital reorganisation is a relatively recent phenomenon in India. It is a strategy that capital has not systematically employed before. In contrast the case of such dualistic structures of production and technology have been very much a part of the Japanese industrialisation experience, as also the role of trading houses which developed and controlled widespread distribution networks, both within and outside the Japanese economy, from the very beginning.[17/] The cost advantages inherent in these production and marketing structures and their implications for Japan's industrialisation and eventual penetration of highly competitive international markets is too well known to require further

17/ For some evidence of the contrasts in technological choices, manufacturing organisation etc. between India's early industrialisation experience and that of Japan, see Sudipto Mundle - Technology, Labour Intensity and the Organisation of Industrial Production: A Tentative Comparison of India and Japan, CDS Working Paper No.118, (mimeo) 1980.

emphasis. Now that this has appeared in India as what seems to be the third level of capital reorganisation in response to the current crisis of accumulation, the question needs to be seriously posed as to what are its implications in terms of India's own economic conjuncture both internally and in the context of the international economy.

d. New Techniques and Work Reorganisation

I have tried to sketch above what seem to me to be the three main levels of capital reorganisation underlying the aggregate phenomenon of crisis or retrogression. In addition to these there is also a fourth level at which capital is reorganising itself and that is the level within individual units of production both in the large scale organised sector as well as within the so-called unorganised or small scale sector which is organically linked to it. This is the level at which new techniques are introduced. And along with the transformation of production processes there comes the reorganisation of the labour process itself. A movement aimed directly at raising not only the productivity of labour but also the share of the surplus and hence the rate of profit. There is no attempt to either analyse or document this level of capital reorganisation here, largely because the present author lacks the technical competence necessary to seriously observe and analyse these processes. Processes which are best understood by the managers, technicians and above all the working men who directly experience these processes.18/ Nevertheless it needs to be recognised that

18/ Braverman's well known work is perhaps the example that comes to mind most easily. See H. Braverman - Labour and Monopoly Capital: The Degradation of Work in the Twentieth Century. Monthly Review Press, New York, 1974.

this is also one of the major levels of capital reorganisation.

The burden of the entire argument offered in this section is to suggest that the current crisis of accumulation must be read not only as a period of stagnation or retrogression but also a phase of substantial capital reorganisation. Reorganisation at various levels, especially the transformation of the industrial structure, which capital is carrying through before it can resume a normal programme of accumulation. In particular the period should not be read as some sort of permanent crisis, dead end or prelude to a breakdown of the system of capital production which is how it has been read in some formulations deriving from Realisation Theory - in particular the underconsumptionist variants of that theory.19/ It is entirely a different matter that the resumption of normal accumulation will have nothing much to offer the overwhelming majority of Indians who lack the means to live like normal human beings. <u>That</u> is not the concern of capital.

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19/ Perhaps one could extend this to an analysis of the developed capitalist countries as well and argue that in establishing and focussing entirely on the causality between the development of oligopolistic market structures and stagnation Realisation Theory has failed to grasp the many other levels at which capital can manouver and reorganise itself. Steindl's shift of emphasis, as in Kalecki's work, on the role of technical progress is instructive; as also the current optimism of the Post-Keynesian tradition (see the references in footnotes 4 and 5 above). However this is beyond my present concern.

## IV: Land and the level of living

The only real concern of capital is capital itself and the prospects of its own expansion. It is only from this particular point of view that capital is ever interested — or rather compelled — to consider the conditions of existence of the large mass of people. That is to say that to the extent the low purchasing power of the consuming population acts as a barrier to the self-expansion of capital, the latter is concerned with questions of poverty, inequality etc. This I believe is the core of the under-consumptionist argument that inequalities in income distribution and poverty of people obstructs the programme of accumulation. It is true that the over production of capital in relation to the size of the surplus manifests itself as an over production of commodities, including consumer goods, in relation to the size of the market, but the market is not only a market for consumption goods. It is also a market for the means of production. And in reorganising and expanding itself capital also expands the size of the market. The limitation of the market is only a passive manifestation in the sphere of circulation of crisis which invariably have their origin in the sphere of production. It appears and vanishes with the appearance and resolution of the latter. The demand for consumption goods is therefore a problem by itself only in so far as the production of constant capital in Department I requires labour which must be sustained by the consumer goods produced in Department II. This requires the maintenance of certain material and value balances between the two. Capitalist production not being centrally planned

production these balances can and do get disturbed from time to time.

This apart the size of the market for consumer goods, or the purchasing power of consumers underlying it, is of no concern to capital. Indeed it is by now a well established fact of history that as accumulation proceeds a smaller and smaller proportion of output is made up of the items of consumption and capital increasingly detaches itself from the market for consumer goods. As we have seen in the preceeding section, this is also one of the principal characteristics of capital reorganisation in our current crisis.

So the well being of the people is not the concern of capital. But for people themselves it is very much <u>the</u> concern. And while our analysis may lead us to see that growth and the accumulation of capital will resume once capital has adequately reorganised itself, the really important question to be answered is how this resumed accumulation will affect the material conditions of the people. As we have suggested from the outset, it is not likely to make much of a difference. By its very nature the manner of reorganisation that capital is undertaking is unlikely to generate much employment. Our earlier evidence has indicated that there is not only a shift away from labour intensive to less labour intensive techniques of production, as is generally the case in all technical change outside agriculture, but also a shift away from whole <u>branches</u> of production which are labour intensive to those which are less labour intensive. As such even when the accumulation of capital is revived, this is not likely to either generate much employment or place much more purchasing power in the hands of the working

people.[20] The best that can be hoped for, at least for the next decade or two, is that the growth of manufacturing and allied activities in non-agriculture will absorb the internal growth of the work force within the sector.

Meanwhile there is the remaining seventy per cent or so of our population who make their livelihood out of agriculture and will have to continue to do so. All that we have said so far about capital reorganisation and resumed accumulation in industry is therefore, from the point of view of this seventy per cent, quite irrelevant. And at its roots the question of material well being of the large majority of Indians is really the agrarian question. It is possible that eventually agriculture itself will be industrialised. That is to say, agricultural enterprises -- whether large capitalist farms or small peasant farms-- may become highly productive and technologically 'controlled' units of production fully integrated within a vast industrial organism, much like the ancilliary manufacturing units of today or the plantations. In many of the presently industrialised countries this industrialisation of agriculture has already occurred. But in India this is a prospect-- if it is a prospect at all-- of the distant future. No such transformation is forseeable in the near future within this system. So far as the next decade or two is concerned, therefore, it seems prudent to base our expectations on trends observed in the recent past.

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20/ This situation is not likely to be much altered by the growth of the small scale sector either. As we have tried to indicate earlier, the new kind of small units which are likely to grow most rapidly as ancilliaries to large industry are not like the traditional small scale industries. The labour employed in relation to means of production is often quite low, for the prime consideration here is really to get high productivity without the accompanying high wages of the organised sector.

Land, the principal means of production in agriculture, cannot be extended once the entire available area has been colonised. Nor can it be manufactured like the means of production in industry. The question of the material well-being of the agrarian population is thus, principally, a question of the distribution of land. It can be argued here that while the mass of land available cannot be extended its productiveness can be increased which, analytically, would amount to much the same thing for our purpose. While this is true, it must be recognised that the pace at which this productiveness can be raised is excruciatingly slow compared to the possibilities in manufacturing industry. According to one estimate, for instance, the trend rate of growth of crop production in India since 1950-51 has been only of the order of 2.6% per annum.21/ And this is by no means a low rate of growth for agriculture in comparison with known international standards.

Since a part of this growth in crop production has come out of increases in acreage, the rate of growth of land productivity itself is still lower though, admittedly, this has accounted for a relatively larger component of growth in recent years than in the earlier years

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21/ See A.Vaidyanathan - Performance and Prospects of Crop Production in India. Economic and Political Weekly, Special Number August 1977. There has been an extended discussion about what was the actual rate of growth and whether it has declined in recent years. Obviously there is no such thing as the trend rate of growth since the exact number would depend on which out of a number of possible alternative curves one chooses to fit. And the high coefficient of explained variation is by no means an adequate criterion for choice. However, estimates generally vary between 2% per annum to 3% per annum and while there has been some dispute as to whether the growth rate in agriculture has fallen the important point is that no one has seriously claimed that it has risen - the Green Revolution notwithstanding.

upto about the mid-sixties. Finally it has to be kept in mind that this slow growth of land productivity has been offset to a considerable degree by the increasing pressure of population on land. It will be noted from table 8, for instance, that while the total rural (agricultural) area operated went up by hardly 9% from 336 million acres in 1954-55 to 366 million acres in 1970-71, the number of rural (agricultural) households supported by this land went up by as much as 31% from 61 million households to 80 million households over the same period. The average operated area available per household thus came down from 5.5 acres in 1954-55 to 4.6 acres in 1970-71. The land-man ratio, measured as rural (agricultural) operated area per head of rural (agricultural) population declined during this period from 1.28 acres per head to about 0.96 acres per head.[22] Thus, even after allowing for increases in productiveness, the availability of land so augmented cannot be taken to have increased very significantly in relation to the population which it has to support. Which brings me back to my original point that primarily it is the distribution of land which governs the material standards of living of the large mass of people in the Indian context.

Information on the distribution of households and operational holdings by size groups of operational holdings in 1954-55 and 1971-72

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[22] The rural (agricultural) population estimates used for this calculation are based on S. Mundle - Surplus Flows and Growth Imbalances. Allied Publishers, New Delhi, forthcoming. It has been pointed out to me by Professor Vaidyanathan that a calculation based on the NSS landholding data is likely to underestimate the land-man ratio since the total operated area as per NSS estimates is less than the actual. But since the same data source is used for both points of time, the direction of change indicated here is probably unaffected by the bias.

Table 8

Distribution of Households & Operational Holdings by Size Class of Operational Holdings in Rural India (agricultural)

| Size Class of Holdings (acres) | Number of Households (millions) | | | Area Operated (millions | | | Distribution of Households (%) | | Distribution of area operated (%) | | Relative gain/ Loss in share of operated area (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1954-55 | 1971-72 | %Change 1954-55 to 1971-72 | 1954-55 | 1971-72 | %Change 1954-55 to 1971-72 | 1954-55 | 1971-72 | 1954-55 | 1971-72 | (col.10/col.9-1)x100 |
| (0) | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
| 0.00 | 17.2 | 21.9 | 27.3 | - | - | - | 28.2 | 27.4 | - | - | - |
| 0.01-0.99 | 8.6 | 11.9 | 38.4 | 3.6 | 6.2 | 72.2 | 14.2 | 14.9 | 1.1 | 1.7 | 72.2 |
| 1.00-2.49 | 8.5 | 14.4 | 69.4 | 14.6 | 27.7 | 89.7 | 14.1 | 18.0 | 4.3 | 7.6 | |
| 2.50-4.99 | 9.1 | 13.2 | 45.1 | 33.6 | 54.4 | 61.9 | 15.0 | 16.4 | 10.0 | 14.9 | 41.7 |
| 5.00-7.49 | 5.3 | 6.9 | 30.2 | 33.2 | 48.7 | 46.7 | 8.7 | 8.7 | 9.9 | 13.3 | |
| 7.50-9.99 | 3.3 | 3.4 | 3.0 | 29.3 | 34.0 | 16.0 | 5.4 | 4.3 | 8.7 | 9.3 | 10.8 |
| 10.00-14.99 | 3.4 | 3.8 | 11.8 | 42.1 | 52.0 | 23.5 | 5.6 | 4.7 | 12.5 | 14.2 | |
| 15.00 & above | 5.5 | 4.5 | -18.2 | 179.3 | 142.7 | -20.4 | 9.0 | 5.6 | 53.4 | 39.0 | -27.0 |
| Total | 61.0 | 80.0 | 25.0 | 335.7 | 365.7 | | 100* | 100 | 100* | 100 | |

Source: Computed from K.N.Raj - Peasants & Potatoes, Centre for Development Studies Working Paper No.123, Table 1. *Colums do not add up to 100 because of rounding errors.

based on NSS landholding surveys, has been summarised in Table 8. The extreme inequality of the distribution of operational holdings will be obvious straightaway from fractile comparisons of the distribution of area operated against that of households in either year (columns 7 to 10). Thus in 1971-72 while the top 10% of all households operated as much as 53.2% of total operated area, or the top 14.6% of households operated 62.5% of the area, the lowest 27.4% of households at the other end of the distribution did not operate any land at all. Or the lowest 42.3% of households operated only 1.7% of the total area.

What is important to note, for purposes of identifying the dynamics at work, is however the <u>changes</u> in the shares of the different size classes over the twenty five year period.(col.11). Thus the share of holdings of size less than 2.5 acres went up the most - by as much as 72.2%, followed by holdings in the size class of 2.5 to less than 7.5 acres which raised their share by 41.7%. Holdings in the next higher size groups of 7.5 to less than 15 acres raised their share by only 10.8%. Finally the share of holdings of the size of 15 acres or more <u>decreased</u> by 27.0%. There seems to have been therefore a marked shift of the distribution away from the larger sized operational units in favour of smaller units, the relative gain in share of total operated area being inversely related to the size class of operational holdings.

This inverse relationship becomes very clear when we look at changes in the number of households or total operated area within each size class. Once again we find that there has been a maximum increase in the number of households operating holdings of less than 2.5 acres, particularly holdings of the size of 1.0 to 2.49 acres (cols.1 to col.3). This is followed by a substantial though relatively smaller increase of households operating holdings of size 2.5 to less than 5 acres, a still smaller increase in households operating holdings of between 5 to less than 10 acres and so on till we reach households operating holdings of size 15 acres or more. The number of households in this size class actually declined from 5.5 million in 1954-55 to 4.5 million households in 1971-72. The pattern of increase (decrease) in total operated area in different size classes follows an identical pattern. (Cols.4 to 6). The area operated in each except the highest size class has grown while the proportion of increase seems to be inversely related to the size class. These increases have come partly out of the decrease in area under the largest size class -- a decrease of 36.6 million acres -- and partly out of an increase of 30 million acres in total operated area.

The basic dynamic of the situation, therefore, seems to be quite clear. With the increasing pressure of population on land a growing mass of rural households are being forced to operate on progressively smaller plots of land. This has some serious, if obvious, implications not only for the material conditions of the self-cultivating peasant households but also for the levels of living of rural or agricultural

labour households. As these growing number of cultivating households are forced to make do with smaller plots, they are not only unable to employ any outside labour on their own plots but are on the contrary themselves forced to search for work outside in order to augment their dwindling income from own cultivation. Where the whole or a part of the operational holdings is leased in, the terms of lease are also possibly getting more harsh. The smaller the size of the operating unit, the greater is the dependence of these households on outside work. And at the bottom of this heap there is that vast collection of households, about 22 million of them in 1971-72, who are unable to operate any land at all and are forced to live entirely on the employment offered by others. The dividing line between these purely labour households and households operating the smallest plots of land is of course a meaningless one, both categories being dependent basically on employment offered by others.

On the one hand, therefore, the proportion of total operated area where employment is offered to outside labour is diminishing. On the other hand there is a growing number, and proportion, of households who must offer themselves partly or wholly for precisely such employment. The implications of this situation for the large mass of our rural population is frighteningly obvious.

It is captured, though only partly, in the estimates of wage earners from rural labour households based on the First and Second Rural Labour Enquiries presented in Table 9. I say partly because we have here only the estimates corresponding to those households whose main source of income is from labour. There would be in

Table 9

Number of Wage Earners in Rural Labour Households

| | 1964-65 | 1974-75 | increase (%) |
|---|---|---|---|
| Men | 20.5 | 30.5 | 48.8 |
| Women | 12.8 | 20.6 | 60.5 |
| Children | 2.0 | 3.5 | 77.6 |
| Total | 35.3 | 54.6 | 54.7 |

Source: K.N. Raj - Peasants & Potatoes, Centre for Development Studies, Working Paper No.123; table 2.

addition to this a sizeable group which offers itself for labour but is not represented here because they come from households where the main source of income may be own-cultivation or some occupation other than labour.

Even this partial evidence however is enough to tell a grim tale. In the ten years between 1964-65 and 1974-75, the total number of wage earners from rural labour households had increased by over 54%. But among these the number of women wage earners grew much faster than men wage earners and child labour grew the fastest of all. In view of the arguments presented earlier, it should be obvious that these growing numbers do not reflect by any means a buoyant demand situation with employers running after labourers in the wake of a booming growth of agricultural output. The situation is in fact quite the reverse. The demand for agricultural labour may have actually stagnated or even shrunk. On the other hand, unable to subsist any more on their shrinking units of land the large mass of peasant households are now being forced to send out in increasing numbers not only the men but also the women and children to get such employment as they can and to somehow eke out a living. And while the number of wage earners is increasing, the number of days of employment per head is probably diminishing.

Our interpretation of the rural situation as one of extreme deprivation --and growing desparation --is easily confirmed by such evidence as is there on the levels of living of the rural poor. On a recent reckoning, based on a consumption level of Rs.15 per head

per month at 1960-61 prices, it turns out that roughly half the rural population has been subsisting at or below this level.[23/] It should be obvious that the level in question here is really a level bordering on starvation. And half the rural population below that level means well over 200 million people. But as I have said earlier, this is not the concern of capital.

I have confined myself here to observations at an aggregative level. For an agrarian system as large and varied as ours this is hazardous. However, the basic causality between a deteriorating land: man ratio and the spread of impoverishment, via the changing operational distribution of land, which has been outlined here would probably survive the required disaggragative analysis. It should be immediately emphasised that what has been said here is not offered as an analysis of the agrarian system as such. I have only underlined what seems to me to be one important dynamic of this system. And it needs to be added here that our reading of a system based on the distribution of land perhaps ought not to be forced into the framework of a theory built primarily to analyse the system of capital accumulation in industry. Both systems conform to the general laws of historical development and their movements are certainly inter-related. But their specific dynamics are quite different.

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22/ M.S.Ahluwalia - Rural Poverty and Agricultural Performance in India, Journal of Development Studies, April 1978.

## APPENDIX: [illegible] WEIGHTS IN THE INDEX OF INDUSTRIAL PRODUCTION

| INDUSTRY | INDEX OF INDUSTRIAL PRODUCTION ANNUAL COMPOUND RATES OF GROWTH | | | | WEIGHTING IN THE INDEX OF INDUSTRIAL PRODUCTION | |
|---|---|---|---|---|---|---|
| | 1961-73 | 1961-65 | 1966-68 | 1969-73 | 1960 | 1970 |
| (0) | (1) | (2) | (3) | (4) | (5) | (6) |
| I. BASIC INDUSTRIES | 6.72 | 10.4 | 5.9 | 5.2 | | |
| 1. Mining & Quarrying | 3.48 | 5.7 | 3.1 | 2.6 | 9.72 | 9.69 |
| 2. Salt Refining | | | | | 0.19 | 0.21 |
| 3. Heavy Organic Chemicals | 10.30 | 16.4 | 8.1 | 7.9 | 0.10 | 0.54 |
| 4. Heavy Inorganic Chemicals | | | | | 0.60 | 1.01 |
| 5. Fertilizers | 28.04 | 20.3 | 21.2 | 17.9 | 0.46 | 1.39 |
| 6. Cement | 5.72 | 6.2 | 4.2 | 4.7 | 1.17 | 1.17 |
| 7. Iron & Steel Basic Industries | 2.86 | 13.1 | 0.0 | 1.4 | 6.23 | 7.04 |
| 8. Aluminium manufacturing | 14.57 | [illegible] | [illegible] | [illegible] | 0.57 | 1.30 |
| 9. Brass Manufacturing | | | | | 0.29 | 0.35 |
| 10. Electricity | 11.13 | 13.8 | 11.8 | 7.6 | 5.37 | 9.28 |
| II. CAPITAL GOODS INDUSTRIES | 4.76 | 19.5 | -4.8 | 5.4 | | |
| 11. Machinery, apparatus and supplies for Power Transformers | 11.24 | 33.8 | -7.7 | 9.6 | 0.38 | 1.48 |
| 12. Electrical Motor/ Furnaces | 9.23 | 34.4 | 4.1 | -1.7 | 0.27 | 0.35 |
| 13. Cables & Insulated Wires | 7.54 | 14.7 | -1.2 | 9.5 | 0.68 | 0.85 |
| 14. Railroad equipment | -8.20 | 21.0 | -20.4 | -7.7 | 3.50 | 2.99 |
| 15. Motor Vehicles | 4.68 | 6.3 | 3.2 | 3.5 | 2.51 | 3.03 |
| III. INTERMEDIATE GOODS | 3.89 | 7.0 | 1.9 | 3.4 | | |
| 16. Cotton Spinning | 1.28 | 3.9 | 0.9 | 1.0 | 11.79 | 6.24 |
| 17. Jute Manufactures | - 1.79 | 3.8 | -7.1 | -1.2 | 3.97 | 2.71 |
| 18. Tyes & Tubes | 9.26 | 11.7 | 9.5 | 6.5 | 1.48 | 1.43 |
| 19. Synthetic [illegible]res | 5.97 | 11.7 | 9.8 | 0.1 | 0.64 | 1.19 |

APPENDIX (Contd.)

| (0) | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| 20. Dye stuff and dyes | 6.96 | 7.2 | 8.5 | 3.2 | 0.61 | 0.63 |
| 21. Paint, varnish and lacquer | | | | | 0.32 | 0.30 |
| 22. Petroleum Products | 10.98 | 9.7 | 17.9 | 5.0 | 1.34 | 1.62 |
| 23. Structural Clay Products | 11.77 | 4.4 | 23.3 | 11.0 | 0.77 | 0.65 |
| 24. Batteries | | | | | 0.38 | 0.55 |
| IV. CONSUMER GOODS | 4.07 | 5.0 | 1.1 | 4.2 | | |
| A. CONSUMER NONDURABLES | 2.81 | 3.8 | -0.9 | 4.1 | | |
| 25. Sugar factories and refineries | 3.24 | 4.5 | -12.2 | 11.0 | 3.50 | 2.79 |
| 26. Hydrogenated oil (vanaspati) | 4.33 | 4.9 | 3.4 | -0.3 | 1.09 | 0.68 |
| 27. Tea | 2.10 | 2.7 | -2.8 | 6.8 | 5.12 | 2.57 |
| 28. Cigarettes | 4.43 | 7.9 | 3.8 | 0.7 | 2.15 | 2.21 |
| 29. Cotton textile weaving | -0.73 | 0.0 | -1.3 | -0.6 | 9.39 | 5.41 |
| 30. Woollen fabrics | | | | | 0.36 | 0.31 |
| 31. Paper & Paper Products | 7.32 | 8.0 | 7.9 | 5.3 | 1.61 | 2.24 |
| 32. Footwear | | | | | 0.43 | 0.44 |
| 33. Fine & Pharmaceutical chemicals | 3.85 | 6.0 | 4.9 | 4.4 | 2.21 | 3.12 |
| 34. Soapes & detergents | 8.65 | 3.9 | 8.5 | 8.5 | 0.95 | 0.65 |
| 35. Matches | -1.73 | -2.1 | -4.1 | -5.3 | 0.50 | 0.26 |
| 36. Glass & Glass Products | 2.10 | 5.6 | -2.7 | 3.5 | 0.57 | 0.50 |
| B. CONSUMER DURABLES | 9.08 | 10.7 | 8.5 | 4.4 | | |
| 37. Commercial office & household machines | 3.27 | 6.6 | 2.0 | 3.7 | 0.53 | 0.52 |
| 38. Electrical Appliances | 7.78 | 8.8 | 3.8 | 8.8 | 0.56 | 0.97 |
| 39. Communication Equipment | 18.80 | 16.8 | 32.9 | 3.9 | 0.61 | 0.48 |
| 40. Motorcycles & bicyles | 10.14 | 10.5 | 10.1 | 8.5 | 0.62 | 0.75 |
| GENERAL INDEX | 4.88 | 9.0 | 1.6 | 4.5 | | |

Source: Studies on the Structure of Indian Economy and Planning for Development, Planning Commission, G.O.I., 1977, Tables 9 and para 19.

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Seminar

on

ALTERNATIVE DEVELOPMENT STRATEGIES :

THEIR RELEVANCE TO INDIA

# TOWARDS A MICRO-LEVEL THEORY OF RURAL UNDERDEVELOPMENT AND DEVELOPMENT : A REVIEW OF THEORETICAL PERCEPTIONS IN THE INDIAN CONTEXT

by

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LUCKNOW

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# TOWARDS A MICRO-LEVEL THEORY OF RURAL UNDERDEVELOPMENT AND DEVELOPMENT : A REVIEW OF THEORETICAL PERCEPTIONS IN THE INDIAN CONTEXT

M.V. Nadkarni

Whenever we think of development theory, many of us usually tend to soar into the sky and take a bird's eye-view of the economy as a whole, condescending at best to take a view at the sectoral and inter-sectoral level. This certainly has some advantage in so far as it can offer a hilistic perspective and offer certain insights into processes and relations involved in economic development, not otherwise obtained. However, theoretical generalisations based on such a view are more likely to be ethereal than real, unless the 'bird' comes down and atleast perches on a tree to check whether what looked like a green field of standing crop is in fact so or simply a field full of parthenium weed. Unlike birds in nature, many of our kind of 'birds', however, are content only with a "bird's eye-view" which unfortunately is not compensated by the existence of others content only with what may be called a "snail's eye-view". Birds which live essentially on the earth and yet soar into the sky occasionally to have a total perspective are indeed a rare breed in social sciences.

It would appear that such a state of affairs is due to the heavy weight of the neoclassical approach on most of us. This approach as captured in most of our text books draws a neat distinction between micro and macro theories, relegating the

whole question of growth and development to macro economics. But can there be no micro view of the process of development and under-development? How does the process work at the micro level - at the level of households, villages and small regions with all their diversity, as distinct from the aggregate level? A micro theory of development, which can help us in understanding ths micro level processes, has to be organically related to and consistent with its macro counterpart. A micro theory, growing like a wolf boy isolated from a macro perspective and from its real surroundings, can only be as useful as the wolf boy whatever its logical rigour. When we speak of micro theory, we do not think of such a wolf boy. In this sense, there can be no pure or exclusively micro theory.

There is no dearth of studies at the farm and household level particularly in rural areas, mostly inspired by the neoclassical micro theory. Farm management studies have dominated agricultural economic research for quite some time, as also the supply response studies. These studies, however, are hardly integrated with a theory of development as such, and do not provide insights into problems of poverty and underdevelopment in rural India.[1] Following Schultz, one can claim that there can be a 'development' view derived from such micro-studies ; that basically Indian agriculture is efficient in terms of decision-making and allocation of resources as shown by most of these studies; and that, therefore,

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[1]As V.M. Rao says, "It is curious to note the absence of a meeting point between rural India and economic theory at an intermediate level above the farm and below the economy". See his "Economic Theory - A Rational Framework for Rural India", <u>Economic Times</u>, 1 October 1979.

'underdevelopment' can be removed simply by provision of better technology, skills and inputs. If this indeed were the case, removal of poverty would have been quite an easy proposition. This 'development view' is rooted in neoclassical theory and assumes a perfectly competitive, highly commercialised, frictionless and homogeneous production conditions. Even if all have equal access to skills, technology and inputs (itself an unrealistic assumption), key issues like the existence of precapitalist production conditions, sources of surplus generation and channels of its investment, ways of appropriation of surplus and the linkage of all this with development do not enter into such a view. No detailed critique of this view is needed here except stating that it is too narrow and simplistic to throw light on the nature and cause of rural poverty, or on the process of development and its impact.[2]

We may also note here that development at the village level is not just a question of increasing production, even if sustained and continuing over a long period of time. Development involves improvement in the economic and social conditions of all persons and groups, and increasing production may be only one of the many conditions needed for this purpose.

The lamentable fact is that a theory of development at the 'village' level is yet to emerge. As V.M. Rao says, there is 'the

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[2]For a critique of the neoclassical theory particularly in the context of underdeveloped countries, see three studies by Krishna Bharadwaj : Production Conditions in Indian Agriculture, Cambridge University Press, 1974; Classical Political Economy and the Rise to Dominance of Supply and Demand Theories, Calcutta, Orient Longmans, 1978; On Some Issues of Method in the Analysis of Social Change, Mysore, University of Mysore, 1980.

lack of an economic theory of the village, a theory viewing the village as a community of people and bringing together in a coherent framework the crucial and systematic components of economic interaction occurring within and between villages'.[3] This would explain why we do not yet have an adequate understanding of rural underdevelopment and poverty. A theory is not a matter of mere academic interest. The question of strategy of development is directly linked with it. If we have no theoretical perception of rural situations, we can have no proper strategy either. We have, however, a few theoretical perceptiions, though taking each of them by itself could hardly give us a general theory of rural underdevelopment. Some of them are macro in character without a corresponding micro perspective. It would be useful to review them here so that their contributions as well as their limitations can be understood and scope for further work identified.

Lipton's 'Urban Bias' theory[4] takes an 'overall' view and cannot be considered as a micro level theory. His attack on the attempts of industrialisation in the Third World as reflecting Urban Bias and project the whole problem as urban-rural conflict leading to rural poverty, would look rather simplistic if not motivated. Economic development has involved an expansion of secondary and tertiary sectors and relatively less investment in agriculture, but this has also progressively absorbed rural workforce increasing the incomes and per capita productivity of people remaining in

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[3]V.M. Rao, op.cit.

[4]Michael Lipton, Why Poor People Stay Poor : Urban Bias in World Development, London, Temple Smith, 1977.

agriculture. The type of industrialisation that took place in underdeveloped countries, however, did not produce this result. We have to probe into the factors behind this and correct them, rather than decry industrialisation *per se* in the Third World while letting the already industrialised countries have all the advantage of their dominant position. The more important limitation of 'Urban Bias' theory is that causation is exclusively external and there is nothing in the nature of rural society or the village which could determine its development or underdevelopment. That the gains of even agricultural development need not reach the poor and they could be spent on non-productive activities, are possibilities which do not bother this theory.[5] It is this lack of a micro level perception which makes this theory unconvincing and incapable of offering insights into the process of rural underdevelopment or development.

The perception of 'Dependency Theory' is much wider and deeper, which takes a critical look at the way capitalism operates in the underdeveloped countries. It is an important landmark in the history of post-Lenin Marxian thought, treating capitalism as an integrated world level system subordinating all other systems to itself, with the exception of a socialist state which alone can resist capitalist penetration. The theory can be applied even in a context where overt colonial exploitation of a country by an outside power does not take place, and the 'native' metropolis takes the place of 'overseas' metropolis. The theory has been applied in the Indian

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[5] For a detailed critique, see T.J. Byre's Review Article on Lipton book in the *Journal of Peasant Studies*, Vol.6(2), January 1979.

context both at theoretical[6] and empirical[7] levels. Rural underdevelopment, in this view, is a counterpart process of metropolitan development and has to be distinguished from lack of development as such. Development is a suction process of drawing out resources from rural areas for the enrichment of urban, particularly, metropolitan areas; this explains continuing rural poverty. The process arises from the asymmetrical relationship between the hinterland and the centres; they are not equal partners either in commodity flows or terms of exchange. If a few villages or towns develop into cities, it is because they have the potential of acting as engines of suction. Their own development is the reward they get for this redistributive role. Commercialisation or world capitalism can find its agents-human, institutional or spatial, and the development of these agents cannot be equated with overall development. What takes place in rural areas is essentially the process of underdevelopment and deprivation.

Though ideological thrusts of 'Urban Bias' and 'Dependency' theories are different, there is a significant meeting ground between them. In both cases, rural poverty is due to exploitation of rural areas (periphery, hinterland etc.) by urban areas (centres, metropolis etc.), and both suffer from certain common

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[6] See for example, Boudhayan Chattopadhyay and Moonis Raza, 'Regional Development : Analytical Framework and Indicators', Indian Journal of Regional Science, 7, 1979.

[7] See for example, S. Chakraborty, 'Urban Economic Base : A Contemporary Indian Experience', paper at the Indo-French Seminar on Problems of Urban Growth, New Delhi, 1978; and Nira Ramachandran, 'Commodity Flows and Regional Organisation of the Indian Economy', Ph.D. Dissertation, Centre for Regional Development, Jawaharlal Nehru University, New Delhi, 1979.

drawbacks stated above. Dependency theory also offers no insights into the process by which capitalist penetration necessarily involves impoverishment at the village level. There is indeed a rich diversity in rural situations; but a pattern wherein there are villages intimately linked with urban areas and yet prosperous and, villages which are remote and poor - seems to be more dominant than the opposite pattern anticipated by the dependency theory. The prosperity of villages is not of course shared equitably, but both wage levels and magnitude of employment enjoyed by rural labour seem to be higher in commercialised and 'open' villages than in remote and relatively closed villages.[8] There is more to it than prosperous villages being merely agents of suction.

The intention here is not to rule out the exploitative role of capitalist penetration from outside, but we need further insights from dependency theory about the nature, magnitude and incidence of this penetration, vis-a-vis the role of the structure of the rural society itself. Where and in what respects does it allow the penetration and where it does not? Does the rural structure and mode of production undergo a change after the capitalist penetration from outside? How far and with what result? How far is rural underdevelopment in India mere a lack of development due to the resistance of precapitalist social formation to capitalist pene-

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[8]Joshi's critique of the theory in the world context seems to equally hold here : 'If dependence is used as an explanation for underdevelopment, then we are immediately faced with the problem of how to account for cases which are dependent in terms of trade and investment flows (the traditional measures of dependence), yet developed, or those which are the least dependent, yet the most underdeveloped'. See B.K. Joshi, "Is Economic Growth Relevant?', Working Paper No.25, Giri Institute of Development Studies, Lucknow, 1980, p.42 (Mimeo).

tration? How far is it due to the fact that capitalism has itself run up against internal constraints? And, how far and where is the process of underdevelopment in operation in the fashion set out by the Dependency Theory, more than other factors? The theory will have to address itself to these questions before it can claim to explain rural underdevelopment. This can be done only on the basis of further empirical work.

It may be noted at the risk of repetition that rural underdevelopment has two dimensions : first, the rural sector is underdeveloped in relation to the urban sector; second, its underdevelopment is a part of the overall underdevelopment and there are forces of underdevelopment within the rural sector which are different from that of urban bias or urban suction. It is obvious that the two theoretical perceptions discussed above concentrate only on the first of these two dimensions. Professor VKRV Rao has been developing a theoretical perception of rural development in recent years, though his ideas are spread over several of his writings[9] and speeches (sometimes unwritten) and are not presented in terms of a systematic model in one place. This perception, while not claiming to be a complete theory, nevertheless takes care of both the dimensions.

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[9] Three of his papers however, contain most of his ideas on the subject. See VKRV Rao, "Some Neglected Factors in Integrated Rural Development", Convocation address at the Indian Agricultural Research Institute, New Delhi, January 1977 (Mimeo); "Integrated Rural Development" paper read at the Third Biennial Conference of Association of Development Research and Training Institutes of Asia and the Pacific, Goa, September 1977 (Mimeo); "A National Policy for Integrated Urban and Rural Development", Berfiwala Memorial Lectures (two) at the All India Institute of Local Self-Government, Bombay, May, 1980 (Mimeo).

According to him the impact of commercialisation has been such that cash flows out of rural areas involving leakage of multiplier effects. Richer farmers, in whose hands marketable surplus is concentrated, spend increasingly higher proportions of their market proceeds on urban inputs, urban luxury goods and urban services. As a result, the employment generation from such expenditure that would have benefited rural areas is passed on to urban areas. Even the gain to urban sector itself in terms of job creation is dubious because of high capital intensity of urban economy. The prospects of absorbing rural workforce into urban areas following urban development and urban based industrialisation are, therefore, even more dim. In reversing the cash flow and starting a process of rural development, one of the most important obstacles is the nonviability of rural settlements. Rural development, asserts Professor Rao, cannot be equated merely with agricultural development and it has to involve development of services, industries and infrastructure in the rural sector which cannot only meet rural needs but also provide employment outside agriculture. But the rural base, organised as it is today, is not viable enough to support such a development process. Villages with less than 1000 population constitute as many as 78 per cent of all villages, which are inhabited by 38 per cent of total rural people. The minimum size of population needed for a viable unit can be taken as 1000, feels Prof. Rao, though he would prefer a village with 5000 people as the ideal. Only 13 per cent of rural people live in villages with 5000 population and above. A restructuring of villages and resettlement of rural households into clusters of units viable

enough to launch a process of rural development, is therefore, strongly recommended by Prof. Rao. Otherwise a large majority of rural population would go without the benefit of basic amenities, which are now within the reach of only a small portion of the rural rich.

In fact, it is not a question of merely a viable size to generate rural goods and services. One of the most important conditions for development of a rural area is that people there should have a community feeling resulting in a resurgence of community efforts for development. Development cannot be looked upon as a purely economic question and should involve the enrichment of social and cultural life of people. This requires building up of rural communities. The present transport conditions, Prof. Rao believes, are such that it is easier for a villager to go to a town or city than to go to a nearby village and the stimulus to develop a fellow feeling and organise community efforts is lacking. It is only when rural settlements are reorganised into viable units or atleast when clusters of neighbouring villages are selected as units for development planning with emphasis on interaction between settlements, that a community feeling would arise and development process can be launched effectively.

It may be noted that Prof. Rao does not ignore the fact of rural differentiation and landlessness of the poor. Conceding the need for land reforms, he feels nevertheless, that land distribution has definite limits because of scarcity of land, and it cannot ultimately eliminate rural poverty. In any case, diversi-

fication of rural economy has to be achieved so that the rural poor have alternative channels of employment, as agriculture alone cannot bear all the burden of providing jobs. To do this, restructuring of villages would be needed.

Clustering of villages has been suggested as an implication derived from the Dependency theory as well.[10] According to this view, exploitation by urban areas can be reduced if rural communities became more self-reliant or trade amongst each other rather than with the urban sector. This is the idea of Prof. Rao as well, though his approach to it may be different. Both the approaches advocate a path of rural development which involves less interaction with urban areas, though they do not go so far as recommending Gram Swaraj and complete independence from urban areas and modern industry. While Prof. Rao has thrown very valuable insights into the process of rural development and the building up strong and viable rural communities would be essential for development, it would be difficult to envisage separate development of rural and urban sectors in isolation of each other. Prof. Rao does not of course advocate such dualism, but the question of demarcating areas where decentralised production can take place and areas where modern industry would be desirable would have to be settled. There would also be the question of whether rural communities would be strong and homogeneous enough to withstand the penetration of commercialisation favouring modern industry. If the strategy is limited to provision

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[10]See H. Ramachandran, Village Clusters and Rural Development, Concept, New Delhi, 1980. This study was also a part of the work in the Tumkur Project, of which Prof. VKRV Rao has been the Hon. Director.

of amenities like drinking water, primary school, cultural amenities, credit society, post office etc., no serious problems would be faced. Any thing beyond is likely to encounter many economic, social and political problems. Market mechanism and capitalism do not favour a balanced and equitable development of both urban and rural sectors. Even if villages are reorganised into viable units and are in a position to regulate penetration of capitalism in their favour, rural poverty may not decline appreciably unless the rural structure is transformed into a more equitable and progressive society. Otherwise, the same rural rich may corner the benefits of rural diversification. Further thinking and research would be needed to see the processes by which strong, viable and also equitable rural communities can come into being, prerequisites for the same, the dynamics of community behaviour and the most desirable way and areas of integration of these communities with the rest of the economy. Experience of countries like China, Israel and Tanzania could perhaps shed some light on this problem, apart from deriving lessons from India's villages themselves and the history of rural change and organisation in India in different regions. Role of the state and the nature of the ruling class vis-a-vis the village, willingness and capacity of the state to reach the rural poor and transform their lives and, such other issues also would have to be settled in this respect.

In understanding the dynamics of rural change, the Marxian approach would look quite promising. It is historical in character and can analyse the present as a phase in history and can identify the seeds of future change in the present. Its analytical category

of mode of production - which is a totality of production relations and forces of production - can help not only in analysing micro level processes but also provide a bridge to macro perspective. The dichotomy between micro and macro theories which characterises the neoclassical theory, is absent in Marxian analytical framework. An outstanding example of the application of this approach is the classic by Lenin - 'Development of Capitalism in Russia' (Vol.3 of his Collected Works) which includes an analysis of rural change in the context of capitalist development. His other treatises bearing on this theme like - 'Capitalism in Agriculture' (Vol.4), 'The Agrarian Question in Russia Towards the Close of the 19th Century' (Vol.15), 'Capitalist System of Modern Agriculture' (Vol.16), and 'Capitalism and Agriculture in the USA' (Vol.22) - are also remarkable for the insights they throw. They are based on solid empirical analysis and clarity of analytical framework, and presented in a charmingly simple language (unlike most of the writings of present day Marxian scholars). A similar work on capitalist development or rural change in India is yet to come, though there has been no dearth of lively debate on mode of production in Indian agriculture[11] and on differentiation of peasantry. While perceptive work on capitalist development in Latin America has been done by Frank[12] and others, insights of such richness have yet to

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[11] This has been reviewed in detail by John Harriss, "Contemporary Marxist Analysis of the Agrarian Question in India", Madras Institute of Development Studies, Working Paper No.14 (Mimeo), December 1980.

[12] Cf. Andre Gunder Frank, Capitalism and Underdevelopment in Latin America, Monthly Review Press, New York, 1967.

be thrown up by Marxian scholars in India,[13] though quite a few brilliant minds have been working in this direction. Could it be that most of the Indian academic marxists interested in analytical work do not have the needed ground level experience, while marxist activists who have rich insights do not have the needed time to develop them into a serious analytical study? Or, is the Indian scene so complicated and diverse, changing even from village to village and district to district, that unless more extensive and in-depth empirical work is done (in a broadly marxian analytical framework), no meaningful outcome can be expected? Probably, the answer is affirmative to both these questions.

At this juncture, it is difficult to arrive at conclusions of empirical nature or implications for strategy from out of Marxian debate on rural questions. The questions raised below while discussing the application of Dependency Theory in the Indian context, are yet to be answered by Marxian scholars, whether subscribing to the dependency view or not. Any possibility of all-India generalisations has to be ruled out. It would, however, be fruitful if Marxian scholars give further thought to designing an analytical framework to understand Indian peasantry and their involvement in rural change in general and capitalist penetration

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[13] It certainly does not mean that we have drawn a blank. Valuable insights have been thrown on the question of mode of production, differentiation of peasantry and size-productivity relationship. But no definitive picture has emerged so far. While it is hazardous to list important publications in the field - more so in a foot note, Daniel Thorner's work could be treated as one of the most useful. See, e.g., Land and Labour in India, (jointly with Alice Thorner), 1974; Agrarian Prospect in India, 1976 (2nd ed.); Mann : Social Framework of Agriculture (Edited) and Shaping Modern India, 1980.

in particular. Such a framework has to be evolved not only to understand rural structure within a village but also inter-village and inter-region differences taking into account their historical context. The role of the state in the penetration of capitalism into rural sector and also its role vis-a-vis peasantry has to be incorporated in the analytical framework. Equally important is the identification of social and cultural factors that interact with economic and political forces at work, making a distinction between those that strengthen forces of development, and those that perpetuate existing patterns or even openly strengthen the forces of underdevelopment. It would indeed be difficult to incorporate all of these elements in a single analytical framework, but the different frameworks should have the potential of being coordinated, to develop a holistic perspective of rural dynamics.

One of the very interesting frameworks for analysing the differentiation of peasantry and the magnitude of its penetration by capitalism has been discussed by Shanin, which was evolved during 1920s in Russia by Nemchinov.[14] The advantage of this scheme is that it develops scales of categories or classes into which peasant households can be divided and also a methodology to monitor processes like polarisation or class creation. The distinction of this approach is that it takes into account not only land, but also fixed capital, circulating capital and labour,

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[14] Teodor Shanin, "Measuring Peasant Capitalism - The Operationalisation of Concepts of Political Economy; Russia's 1920's and India 1970's", in Hobsbawam *et al* (ed.) *Peasants in History - Essays in Honour of Daniel Thorner*, Oxford University Press (India), 1980.

further classifying these inputs according to whether they are invested in own households or other households and whether the inputs are self-owned or owned by others. An index is developed for every peasant household which would indicate net entrepreneurial component of total input. The scheme can throw valuable insights into capital accumulation and exploitation at household and village levels. Shanin has indicated how the scheme could be adapted for India.

Krishna Bharadwaj has developed an interesting analytical scheme recently.[15] Though she has called it a macro framework as it intends to cover the whole economy, it has an important micro component as far as the rural sector is concerned. According to her, it is not enough to concentrate on the production process, as it can hardly be isolated from the exchange sphere. Any framework of analysis has to incorporate both production and exchange spheres and has to allow for the fact that the dominant rural class can conjointly exploit through more than one 'market' or sphere. Moreover, peasantry is "not homogeneous in terms of the objectives they pursue, the set of choices open to them, or the way they make the choices".

From the point of view of exchange involvement, she sets out four categories, which also are related with the participant's status in production. The type of exchange involvement depends

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[15]Krishna Bharadwaj, "Towards a Macro Economic Framework for a Developing Economy : The Indian Case", The Manchester School Journal, September, 1979; also see Lecture III in "On Some Issues of Method in the Analysis of Social Change", op cit.

upon the ability of the household produce and/or appropriate surplus. The scheme of classification suggested is as follows :

| Production Status | Exchange Involvement |
|---|---|
| Landless<br>Very Small Operators | Compulsorily involved |
| Small Operators | 'Subsistence' producers |
| Middle Operators | Quantity adjusters, behaving in a competitive way |
| Large Operators | Dominant parties on the market influencing the form and terms of exchange |

She adds that it is necessary to include pure rentiers, traders, money-lenders etc. whose primary occupation is not cultivating land. "To accommodate these, 'land' would have to be treated as only a proxy for economic resources and we would have to classify such non-cultivating households according to their ability to generate surplus". To tackle such problems and to allow for the fact that with the introduction of irrigation and new technology (which has increased the role of capital) size of holding alone cannot adequately indicate the economic status of a household,[16] it may be advantageous to use the indexation developed by Nemchinov with suitable adaptation, while keeping Krishna Bharadwaj's framework in mind. Otherwise, her analytical framework can not be made operational.

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[16]There are reports of a rise of middle peasantry and decline of big farms in several parts of India. Some have even taken it as an evidence against the alleged trend towards polarisation or class creation in agriculture. It is worth investigating how far the so-called rise of middle peasantry is due to concentrating on the physical size of land and ignoring other factors.

It is interesting to note that she does not try to relate her scheme with the concept of mode of production. According to Shanin, Nemchinov too "deliberately put aside" the question of mode of production though he mentioned it, "in view of the total lack of suitable statistical characteristics dividing the pre-capitalist mode and the other ones" (Shanin, op cit., p.95). Was Krishna Bharadwaj also bothered by the same difficulty? Or, does she find the concept of mode of production vague or inadequate for Indian conditions unless adapted and developed further?

She has elsewhere tried to explain disparity in the levels of agricultural development of regions in terms of conditions favourable for capitalist development in agriculture. In areas where ryotwari system was dominant, conditions favoured the adoption of the new technology involving market based inputs and promoted agricultural development. In areas where Zamindari or feudal conditions dominated, conditions were different and did not favour adoption of the new technology.[17] It would look, therefore, that she considers the concept of mode of production quite relevant and we look forward to further contributions from her, operationalising the concept and relating it to her analytical framework. It is hoped that his framework would enable one to identify and assess the constraints on and/or crisis in capitalist development in the rural sector.

The diversity in rural situations may not permit a single

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[17] Cf. Krishna Bharadwaj's Lecture in Bangalore in November 1980.

generalisation to explain backwardness and poverty. Even in a given region, it is important to know why some villages remain backward and even decline, while a few seem to develop. To develop a theory of village and its development, a lot of hard empirical work would be needed. This realisation stimulated a team of research workers (of Tumkur Project) at the ISEC inspired by Dr. VKRV Rao, to concentrate more on village as an entity. Theirs was not merely the village studies approach but going little beyond. In the words of VM Rao, Joint Director of the Project, ". . . Village Studies . . . seem to have had an undistinguished record and one finds little evidence of its impact in the writings of economists. It seems to us that comparing and contrasting villages in a taluk or block - and not merely looking at a few villages, each selected to represent a large physical or cultural region - could add a new impetus to the village studies by leading them towards the exciting area and an area of prime importance in rural development planning - of understanding rural dynamics in terms of cycles of village growth and decline".[18]

The studies under this project have collected both household and village level data for as many as 245 villages in Tumkur District (which is drought-prone and relatively backward). The typology developed by VM Rao at the moment has covered only the village level data, while the work is in progress on the household data. The typology takes note of not only population size and trends

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[18] Cf. VM Rao, Rural Development and the Village Perspectives for Planning for Development, Sterling, New Delhi, 1980, p.4.

therein (growing or declining), but also other factors like resource base, occupation structure and caste composition (particularly, proportion of scheduled castes and tribes). It is important also to analyse village level changes over decades in occupational structure, caste composition and such other characteristics. Practical difficulty in this respect, however, lies in the comparability over time. It is difficult for example, to get reliable and comparable data at the village level to know whether peasantry has been disintegrating or, if the nature of tenure has changed. But one need not aim at hard data here; even rough indicators of change can help. It is indeed difficult to get a picture of change for each village, but it is time we probe into economic history of each region to understand rural dynamics. This can be a useful complement to village level studies of the concerned region. VM Rao's study, for example, shows that diversity in development cannot merely be explained in terms of the level of irrigation and rural industries. To go further from here, we may have to go into nature of tenure and historical changes in key socio-economic characteristics, apart from the questions like mode of irrigation and its management, at a point of time. Without a historical dimension, we cannot understand rural change adequately.

No theory - particularly in social sciences - can be for its own sake. Its test is its usefulness in evolving strategies for the problems faced. Theory is needed because otherwise we lapse into adhocism - or worse still - take wrong directions. Evolving a theoretical framework at the micro level to understand the dynamics

of rural development and underdevelopment, would be an important complement to a macro perspective, the aim of which - using the famous words of Karl Marx - is not simply to interpret the world but to change it.

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Seminar

on

ALTERNATIVE DEVELOPMENT STRATEGIES:

THEIR RELEVANCE TO INDIA

# The Anatomy of Poverty in India

By

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LUCKNOW

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# THE ANATOMY OF POVERTY IN INDIA

B.P. Pandey

Poverty is a universal phenomenon prevalent throughout the world in some form or the other and is based upon the economic conditions of the different countries. Though the modern social science views poverty as an aspect of social pathology, J.N. Hollender[1] pointed out the poverty in general usage is applied to three distinct conditions i.e. economic inequality, economic dependence and economic insufficiency. According to Alan Batchelder[2] poverty may be defined "in terms of the amount of money available to a family as compared with the money it needs to spend during a given year". However, it is a complex phenomenon and it is difficult to determine a poverty line. The poverty line moves in relation to time and space, depending upon the measures adopted for development and relief of the masses. Though it is difficult to draw a poverty line yet the objective situation compels us to draw some line between the rich and the poor which leads to enquiry and research into the social phenomenon of poverty and affluence.

In the present paper, we are concerned with the Indian situation. It is a well known fact that India is a poor country and many people are living in the state of poverty

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1. Encyclopaedia of the Social Sciences, Vols. XI and XII ed. by Edwin, R.A. Saligman, The Mac Millan Co., New York.

2. Alan B. Batchelder : The Economics of Poverty - John Willey and Sons Incorporation, New York, 1966.

even after launching many development programmes by the government during its planned period. By an observation of the Indian economic conditions, we find that the reasons of poverty are as below:

1. Unequal distribution of poverty and wealth;
2. Unequal distribution of means of production;
3. Non availability of proper infrastructure specially in the rural areas;
4. Pressure of increasing population on land;
5. Unemployment and under-employment;
6. Low fertility of land;
7. Low productivity of workers;
8. Less enterprising nature of the people;
9. Climate effects;
10 Social customs; and
11 Lack of community consciousness among the people and so on.

Some of the reasons mentioned above are in the control of man and some are beyond his control. In the democratic set up of India the governments in power tried to eradicate poverty through various measures but failed miserably. The reasons for failure have been many which are known by the thinking individuals. As the percentage of people below the poverty line is increasing day by day, it is hoped that now this phenomenon is beyond the control of the government in power. The only solution of eradicating the poverty in India seems to be the cultural revolution by peaceful means by the people of India.

Towards eradicating poverty of the weaker section, a report[3] of the committee under the Chairmanship of late Sri Jayaprakash Narayan was submitted in 1961. The main objective of the study was to find out the size of the weaker sections and to suggest some programme for their uplift. The above study group classified the village community broadly into the following categories : (i) families who form the well to do section of the village community and those who have economic land holdings; (ii) families who have uneconomical land holdings; (iii) landless agricultural and other labourers; (iv) village artisans and workers engaged in small crafts, fisherman, tanners, telis, potters, basket makers, etc.; (v) groups forced by historical and other reasons to live in backward and unproductive regions and not adjusted to modern economic life such as scheduled tribes; (vi) sections of the village community forced to engage themselves in hereditary occupations which are not very remunerative, entail risks in matters of health and sanitation and who are also subjected to low social status; (vii) sections who are weak economically though their social status may be high; (viii) women; (ix) nomadic tribes living on mendicancy, small trades, etc.; and (x) destitutes like widows, orphans and old people, unemployed persons with no means of livelihood, physically handicapped, members of ex-criminal tribes, etc. In this classification all the categories except category no.1 may be treated as weaker sections. An integrated development programme was needed to eradicate their poverty but

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3. Jayaprakash Narayan : Report of the Study Group on the Welfare of Weaker Sections of the Village Community, New Delhi, 1961.

it could not be done. Our welfare governments introduced some unimpressive programmes for Antodaya but it proved only illusory.

The income disparity increased day-by-day. The governments supported the well-to-do classes to become richer and they became richer. Purity of means for earning money vanished from the society and the individuals tried unfair means to become rich. As a result of it a chaotic situation is prevailing in the country today and all types of crimes are taking place. The weaker section seems to be the helpless and is contented that God has blessed them to remain poor.

A weekly Dinman recently published some statistics showing the data of persons below the poverty line in India.[4] The state-wise figures are given as below:

| Sl. No. | State | % below the poverty line | Rural | Urban |
|---|---|---|---|---|
| 1. | Orissa | 59.73 | | |
| 2. | Madhya Pradesh | 57.73 | | |
| 3. | Bihar | 57.49 | | |
| 4. | West Bengal | 52.54 | | |
| 5. | Assam | 51.10 | | |
| 6. | Uttar Pradesh | 50.09 | | |
| 7. | Meghalaya | 48.03 | | |
| 8. | Karnataka | 48.34 | | |
| 9. | Maharashtra | 47.71 | | |
| 10 | Kerala | 46.95 | | |
| 11 | Andhra Pradesh | 42.18 | | |
| 12 | Gujarat | 39.04 | | |
| 13 | Jammu and Kashmir | 34.06 | | |
| 14 | Himachal Pradesh | 27.23 | | |
| 15 | Manipur | 29.71 | | |
| 16 | Nagaland | 4.11 | | |
| 17 | Haryana | | 23.25 | 31.74 |
| 18 | Punjab | | 11.87 | 24.6 |
| 19 | Rajasthan | | 33.75 | 33.8 |
| 20 | Centrally administered States | 21.69 | | |

4. Dinman : 7-13 December, 1980, p.34.

The data shows the state-wise figures of the people in India below the poverty line. The Weekly also claims that the percentage of people below the poverty line has increased in comparison to past figures.

These figures have been produced in the form they were available. The All-India figure is 48.13 per cent below the poverty line where 50.82 per cent are below the poverty line in rural area and 38.19 per cent people are below poverty line in urban area. The basis of these figures is consumers expenditure analysis of 1977-78. It may be stated that the Planning Commission of India stated that in 1978 the percentage of people below poverty line was 47 and in the rural area 46.55 per cent people were below the poverty line whereas in urban area 40.71 per cent people were under this line.

If we believe on these figures, we can very well see that the percentage of people is on increase even after so much efforts made by the governments in power. Where is the "distributive justice" for which we always claim being a welfare state?

The social scientists, scientists and planners have diagnosed, analysed and studied the problem of poverty in India from different angles. It would be in the fitness of things to discuss their angles also so that we might be in the position to judge whether the 'growth' that has taken place in India during the planned period has any significance or not.

The most important approach to my mind is the 'nutrition based norm' studied by some of the scientists. The estimates have been given in terms of calories, protein, minerals or vitamins that are required for the sustenance of a healthy human being. No doubt the need of an adult would be more than a child and a man of sedentary habits will require less than a man doing arduous work. If we calculate the income needed in nutrition based norms to keep a man healthy we find that many people in India are not having diets to maintain their minimum standard of health. Various studies done for India, both on a regional and a national basis indicate that a very large proportion of the population have incomes that are insufficient to buy a nutritionally minimum diet. Regarding the consumption of food-grains in India, there appears to be a consensus that an average man requires about 2250 calories per capita per day. In terms of cereals and pulses a man requires a minimum of 1500 calories per day in the urban area and 1800 calories per day in rural areas. Food-grain consumption per capita per day was estimated to be 518 Gms in rural areas and 432 Gms in the urban areas. P.V. Sukhatme[5] is of the view that only cereals and pulses do not provide the total caloric requirements and such a quantitative inadequacy of diet was termed by him as under-nutrition and inadequacy of one or more essential ingredients in the diet was termed as 'mal-nutrition'. Energy content of the diet provides an uniform measure of determining the food requirements. However, the term hunger was

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5. P.V. Sukhatme : Feeding India's Growing Millions, Asia Publications House, Calcutta, 1965.

used by Sukhatme both for under-nutrition and mal-nutrition. Naturally, the caloric needs also vary with age, sex, weight, physical activity and environmental conditions. If the data is collected in the form of the distribution of caloric intakes in relation to requirements of individuals it will reveal the proportion of population which is undernourished.

The study conducted in 1971 by Dandekar and Rath attracted the attention of many people. The study included in its purview both the urban and rural regions. They assume a daily intake of 2250 calories per adult male as the required minimum intake for subsistence. In 1960-61 it would have required an income of Rs.170.80 per capita for an individual to be able to afford such a diet. For a number of reasons, the urban consumer would typically need to spend a higher amount to purchase the same amount of nutrition i.e. Rs.271.70. Thus according to Dandekar and Rath, the urban consumer would have needed to spend about 57 per cent more to attain the same level of nutrition, whereas the average urban income was only 37 per cent higher. In one of the studies Minhas used a per capita annual income level of Rs.240 at 1960-61 prices as necessary for bare subsistence. For rural population he takes Rs.200.00 per capita annual income on the ground that urban cost of living tends to be somewhat higher. Using these figures he found that between 1960-61 and 1967-68 the number of poor people decreased from 164 million to 154 million.

Dr. J. Hicks[6] in his article entitled "Elimination of Poverty in India" showed the state-wise differences in the per capita income.

Per Capita Income in Various States

| Sl. No. | State | Per capita income in 1967-68 (Rs.) |
|---|---|---|
| 1. | Punjab | 1,130 |
| 2. | Haryana | 880 |
| 3. | Gujarat | 816 |
| 4. | Maharashtra | 801 |
| 5. | West Bengal | 752 |
| 6. | Karnataka | 629 |
| 7. | Jammu and Kashmir | 580 |
| 8. | Andhra Pradesh | 570 |
| 9. | Kerala | 567 |
| 10. | Tamil Nadu | 551 |
| 11. | Assam | 539 |
| 12. | Rajasthan | 530 |
| 13. | Madhya Pradesh | 517 |
| 14. | Orissa | 495 |
| 15. | Uttar Pradesh | 491 |
| 16. | Bihar | 391 |

Dr. Hicks has taken mainly the income criteria of measuring poverty but Dr. P.D. Ojha's contention is that income inequality is not sufficient measure of poverty, it should be measured by consumption expenditure also. A.J. Fonesca[7] in his paper "The Poverty Line for Industrial

6. Dr. J. Hicks :"Elimination of Poverty in India" from Challenge of Poverty in India , ed. by A.J. Fonesca, Vikas Publications, Delhi, 1971.

7. Ibid.

Workers" defined poverty as "not enough resources to meet the essential needs". The essential needs were categorised in terms of food, clothing, housing, light, fuel and miscellaneous items.

Our National and per capita incomes increased since the inception of planning in India. But the concentration of wealth was limited only in a few monopoly houses. It means that the main difficulty is with the distribution of income. In rural areas also the ownership of land is concentrated in the hands of top 15 per cent of people.

If even after the inception of planning in India the number of poors is towards an increase, what is the sense in 'growth' through planned development. Let the rich grow richer on their own efforts and the government's total efforts should be concentrated on the weaker section of the community. The plan formulation should be only for weaker section and backward areas. In such circumstances, if the richer section cooperates with the government in helping the poors, they are most welcome.

Towards the elimination of poverty the Marxian school believes in over-throwing the capitalistic system by organizing the poors. The productivity school, the psychological school and the ethnical school believe in gradual and automatic elimination of poverty through increase in the productivity of labour, planned social efforts and by substituting

optimism for pessimism. The Marxian method seems to be a myth in Indian situation. The other methods such as the methods of productivity school, the psychological school and the ethnical school have been applied by the mechanisms of Planning Commission, but all failed. It is opined, therefore, that Gandhi and Marx integrated with each other, taking a shape of cultural revolution is the only solution for eradicating poverty from Indian masses.

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Seminar

on

ALTERNATIVE DEVELOPMENT STRATEGIES :

THEIR RELEVANCE TO INDIA

# SMALL FARMERS DEVELOPMENT PROGRAMME

by

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GIRI INSTITUTE OF DEVELOPMENT STUDIES

and

STATE PLANNING INSTITUTE

LUCKNOW

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# SMALL FARMERS DEVELOPMENT PROGRAMME

S.M. Pandey

## I The Small-Marginal Farmers

The findings of a number of major official enquiries and independent studies have demonstrated that the small and marginal farmers, agricultural labourers and rural artisans could not adequately benefit from the schemes of rural development initiated by the Government in the past. However, their continuing neglect in the matter of providing them the necessary inputs, including finance, for development could hardly be justified or even politically feasible in the context of growing awareness of their numbers and its potential political significance. According to the data collected during the 26th round of the National Sample Survey (1971-1972), there were a total of 81 million households owning about 31 million acres of land. The average area owned per household, thus, worked out to only 3.84 acres in 1970-71 as against 4.97 acres in 1961-62 and 6.25 acres in 1953-54. The average size of landholdings have shown a steadily declining trend. The data also show that in 1971-72, about 44 per cent of households were marginal farmers, (owning less than 1 acre of land), they owned only 1.58 per cent of total owned area of all households, and per household average size of their landholdings was just 0.14 acres. The proportion of households with less than one acre of land was only 31 per cent in 1953-54 and 37 per cent in 1961-62. The average area owned per household was 0.27 acres in 1953-54 and 0.21 acres in 1961-62. Thus, the proportion of marginal farmers

during 1953-54 and 1971-72 substantially increased while the size of their average owned land substantially declined during the same period. About 34 per cent households fell in the category of small farmers (1 - 4.99 acres of land) and they owned about 23 per cent of total land with the average size of 2.6 acres per household. There was little change in either the proportion or average size of holdings of small farmers during the period 1953-54 and 1971-72. However, their proportion of landholdings in total land showed an increase of 7 percentage points during this period. The medium farmers (owning land between 5.0 and 14.99 acres) showed a trend quite similar to small farmers in terms of their numbers, total area and per household average size of area. The trend was reverse in the case of farmers with landholdings of over 15 acres and more so in the case of those who owned 15 acres or more of land. It is also relevant to note that nearly 90 per cent of the area of small and marginal farmers was used for raising only food crops mostly without adequate supporting inputs. Thus, they were following mostly traditional cropping pattern with only one-tenth of their area under non-food crops.

The All India Debt and Investment Survey (1971-72) estimated that the total quantum of liabilities of all rural households was about Rs.3,921 crores. Nearly half of this amount (Rs.1,910 crores) was on the households who were either landless or owned less than two hectares of land. The survey indicated a higher proportion of debt among the smaller asset groups. Further, while the share of institutional credit in the total went up from 15 per cent in 1961-62 to 29 per cent in 1971-72, the poorer sections were largely

dependent upon the non-institutional sources for their credit requirements. The small and marginal farmers and landless labourers, thus, did not have adequate access to institutional credit. Even the establishment of a vast state supported network, and the nationalisation of commercial banks did not substantially change this picture. As for landless workers, their number was estimated by the Draft Plan 1978-83 at 50.4 million in 1971. The data collected through the 26th round of the NSS further show that the share of small farms in total fertilizer use was 32 per cent in 1971-72. And, if the data about the distribution of agricultural credit given by the commercial banks, cooperative societies, and land development banks are pooled together, the share of small farmers in total short-term, medium-term and long-term agricultural credit thus turns out to be only about 33 per cent in 1975-76. It is remarkable that though the share of the small farm sector in cultivated area was only about one-fifth of the total, their share in all important inputs namely, fertilizer, irrigated area, institutional credit and total assets was around one-third in each case. This suggests that small farmers as a class used more productive assets and inputs per unit of land than large farmers.

## II Programme for Their Development

Due to the inherent weakness of the small farmers in managing credit etc. on their own strength and also in view of the then emerging philosophy of the government to develop small and marginal farmers and agricultural labourers and enable them to participate equally in the process of development, the Rural Credit Review Committee felt that some new strategy and special institutional

facilities were immediately required to be devised and set in motion. It was suggested that development agencies may be formed which should cater to the needs of only small-marginal farmers, landless labourers and rural artisans exclusively. The approach to be adopted in dealing with the problems of small farmers as outlined by the All Indian Rural Credit Review Committee was, unlike the approach for agricultural labourers for whom the main need was adequate and continuous employment, based on the assumption that marginal and sub-marginal cultivators had to be helped to raise themselves on the basis of land equipment and the skills which constitute the resources available to them. The problem was, therefore, to make their farm business more efficient in technology and capable of generating a surplus in economic terms and to supplement their knowledge and resources for this purpose. This was to be restricted to only those cultivators who could be developed into surplus farmers if they adopted improved techniques on the basis of support in terms of supplies of irrigation, supplies of machinery etc. Appropriate schemes had to be drawn up by technical experts with reference to local resources and requirements so that such cultivators could undertake specific lines of investment (e.g. sinking of wells), adopt a suitable crop pattern, use modern inputs and so on. It was to deal with this limited problem that an institutional set up in the form of a Small Farmers Development Agency was proposed by the Rural Credit Review Committee in some selected districts. This Agency was required to identify for appropriate groups of farmers in its jurisdiction : (i) their special problems as producers, (ii) the means by which they can be helped to overcome the handicaps

and render their farm economics viable and commercial, and (iii) the arrangement by which those means can in fact be provided. The Agency was then to proceed to undertake the necessary measures.

It was on the basis of the above recommendation that the Small Farmers Development Agencies were set up to deal with the problems of small farmers, who are defined as owning holdings of 2.5 to 5.0 acres of dry land, by formulating specific programmes for crop husbandry, subsidiary occupations and other related activities in order to improve their viability. Along with the SFDA projects it was felt that marginal farmers and agricultural labourers' agencies should also be set up with an accent primarily on subsidiary occupations and employment generation as it was felt that they could not achieve viability through crop production alone. A marginal farmer is defined as one owning upto 2.5 acres of irrigated land or 3.33 acres of dry land. Agricultural labourers are those having a homestead and deriving more than 50% of their income from agriculture.

Each SFDA project was to be confined to a compact area such as a district or a part of a district and cover about fifty thousand families in a phased year-wise programme. The principal objective of the MFALDA project was to assist the marginal farmers in making the maximum productive use of their land by undertaking subsidiary economic activities such as dairying, horticulature, poultry farming etc. The landless agricultural labourers were expected to benefit from the additional employment opportunities during slack agricultural seasons to be created under rural works programme of the Agency. Each MFALDA project was expected to provide assistance to 20,000 families of marginal farmers and agricultural labourers.

The SFDA/MFALDA are autonomous bodies registered under the Registration of Societies Act. They include district level functionaries including the representatives of local development departments, Zilla Parishads, District Cooperative Banks, Land Development Banks, nominees of the Central and State Governments and representatives of the identified beneficiaries. Briefly the basic approach of these agencies is :

i) The small farmers can be made viable with irrigation wherever possible and with adoption of modern technology. The small farmers should be able to have access to the requisite inputs including know-how and credit.

ii) The marginal farmers who cannot depend upon crop husbandry alone, will have to diversify the production and rely on animal husbandry to supplement their income.

iii) The investment and working capital for improved crop husbandry and animal husbandry will have to come from institutional credit agencies.

iv) These activities will be planned in a phased manner for specific areas to benefit the small and marginal farmers and agricultural labourers.

v) The implementation of these agencies will be through the existing field organisation like the block development offices, development departments of the government, cooperatives, and commercial banks and they will have to be strengthened wherever required as part of their normal plan.

The main functions of these agencies are to (i) identify eligible farmers and agricultural labourers to be covered by the project and investigate into their problems, (ii) formulate suitable economic programmes for providing gainful employment to the participants and help them in gaining access to existing institutional facilities, availability of technical and administrative personnel and local resources in the project area; (iii) promote rural industries; (iv) evolve adequate institutional, financial and administrative arrangements for implementing various programmes and (v) promote creation of common facilities for production, processing storage and marketing of products. The agencies are not expected to administer any programme directly. Its role is that of a catalyst in promoting the economic interests of the participants. The identified farmers were allowed subsidies upto 25% and marginal farmers and agricultural labourers upto 33.3% of the investment cost for various programmes like minor irrigation, land development, soil conservation, animal husbandry etc. The outlay for the SFDA and MFAL project for the period of five years was 1.5 crores and 1 crore respectively.

There has been a shift in the approach to the problems of small farmers and marginal farmers in the Fifth Five Year Plan. This has come about mainly due to the recommendations made by the National Commission on Agriculture in their interim report on the reorganisation of programmes of Small Farmers and Marginal Farmers and Agricultural Labourers Development Agencies. The examination by the National Commission was in the context of securing social justice and equality of opportunity for the poorest sections of

society by ensuring their effective participation in the stepping up of agricultural production. The Fifth Five Year Plan objective of reduction in poverty was also kept in sharp focus.

The National Commission on Agriculture[1] highlighted a number of aspects of the SFDA approach.

Firstly, it was pointed out that the main handicaps from which the small and marginal farmers were suffering were lack of resources, facilities, technical guidance and allocative efficiency. If helped with necessary resources and guidance, they can increase their crop production considerably, the small size of holdings notwithstanding. Therefore, development of agriculture with particular reference to crop production should be given attention as the small and marginal farmers would have to depend for a considerable time to come on agriculture alone for their employment and income.

Secondly, the Commission also pointed out the need for adopting an area approach, as drawing up programmes for the weaker sections in isolation would not be technically feasible. All schemes of irrigation and water harvesting and land development will have to be on an area basis. Similarly a subsidiary occupation programme will not succeed without an adequate infrastructure of production, processing, marketing and storage along with the required veterinary services.

Thirdly, the compact area approach with emphasis on crop

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[1]National Commission on Agriculture, Interim Report on Reorientation of Programmes of Small Farmers and Marginal Farmers and Agricultural Labourers Development Agencies, Ministry of Agriculture, New Delhi, August 1973.

husbandry schemes led to the recommendation that the distinction between SFDA and MFAL agencies should be done along with. Each agency should cover the small and marginal farmers and agricultural labourers in the same area.

Fourthly, in conformity with the objective of reduction in poverty, the poorest three categories of population should be the actual beneficiaries under these programmes. Earlier, the upper land holding limit had been as high as 4 hectares in some of the projects. The Commission pointed out that a farmer with a two hectare holding, even in the dry areas, can attain an income level higher than the minimum national norm. Therefore, the benefits of the programme should be confined to farmers, having a holding of less than 2 hectares of dry land.

Fifthly, the Commission also recommended that the responsibility for building up an infrastructure for marketing and processing in an area, which incidentally benefit both small as well as big farmers, should be the normal responsibility of the State Government and, therefore, should be drawn up as plan schemes in the state sector of the plan. No special subsidy from the Agency funds for these programmes was allowed.

It may be of interest to mention here three special features in the strategy of SFDA's. These are (a) selectivity, (b) subsidy, (c) credit orientation. These features, it is claimed, distinguished the SFDA approach from that of other general development programmes.

a) Selectivity : This is the essence of the programme. As the SFDA scheme is designed specifically to benefit specific categories of people, it is necessary to ensure that identification of beneficiaries is done properly. In fact, a major criticism against the implementation of this programme is the leakage of benefits to bigger farmers who do not deserve any help. It is for this purpose that a holding definition has been adopted to make the task of identification as easy as possible and to prevent abuse in this process. As the number of beneficiaries for each project is also specified the holding definition does not present any difficulty. Care, however, is taken to ensure that the smallest of the small farmers are benefited first under the programme.

b) Subsidy : The Commission also felt that, if necessary, the small and marginal cultivators should be enabled to improve their productive potential and levels of income and some subsidies must be provided to them on a continuing basis. The reasons advanced for sanction of subsidy to small and marginal farmers were : (i) the financing institutions normally sanction lower amounts than required for investment, the balance has to be provided by the individual farmer from his own resources, (ii) the total credit needs of small and marginal farmers should also take into account the extent of consumption needs to sustain themselves, (iii) the burden to the farmer on the interest on the total cost of investment would be quite heavy and so as to afford relief to him, an element of subsidy is essential, (iv) subsidy is an incentive for the banks to provide loans and for the small farmers to avail themselves of the facility. It may not be out of context to quote here in some length the rele-

vant observation made by the National Commission on Agriculture :

"There are two important reasons why these subsidies for capital investment in land shaping, canals, drainage and irrigation are justified and should be continued. The class of farmers who are selected for the programme comprises those whose present income places them below the minimum need level of consumption. Even with the facilities available under the programme, many of them would still remain with incomes below the minimum need level. This is the class which has so far not benefited by the massive investment that the state has made in agricultural development in the shape of irrigation, soil conservation and other programmes. Till now the benefits have mainly gone to the richer class. In addition, those who got the benefits of state irrigation projects are not paying even the moderate maintenance rates, let alone a fair return on the capital spent. This has resulted in heavy subsidy in the system in favour of the richer farmers who have so far been benefited by the state programmes on irrigation and drainage. The state should construct a large number of irrigation and drainage projects for the benefits of the small and marginal farmers out of their plan resources but the programmes which are of the kind of wells and shallow tubewells have to be private or community ventures. Because of this, it is not fair to deny them a certain amount of state support to the programme. In the view of the Commission the subsidies of 25% to small farmers and 33⅓% for marginal farmers would be fully justified. Today's marginal farmer has taken to various subsidiary occupationsto augment his income and try to meet his minimum needs. Subsidiary occupations like animal husbandry, poultry rearing etc. are still mostly by-

product enterprises and not very remunerative. The incomes from such occupations being insufficient, he has to go in for labour assignments in the agricultural and non-agricultural fields for his living. Labour opportunities do not depend upon one's option but one has to fit into the market demand to get these opportunities for subsidiary incomes. These farmers have thus developed an economy which does not allow them to pay full and proper attention to their own farming operations. If to this class, the investment brings in opportunities of better farming, it would take some time before they can adjust to the new routine and needs, they pay more attention to farming to the detriment of the marginal labour assignments. Further, irrigation may be paying for itself and give a good income if the area of the farmer under irrigation is more than half hectare. But with the fragmented holdings it may well happen that only one or two of the fragmented holdings get support. Thereby the beneficiary is still not out of woods. His consumption needs being imperative, he requires consideration in terms of repayment. All this adds upto the second reason for maintaining the subsidy that is now given to small and marginal farmers in the project".[2]

c) Credit Support : The schemes taken up under SFDA are based on the availability of credit from financing institutions like Cooperatives or Commercial Banks. The objective is to use credit as a means of development of the small farmers by ensuring an adequate flow in their favour. The projects are thus expected to act as catalysts and bring together the small farmers, the state governments, technical and extension agencies, and the credit agencies.

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[2] *Ibid.*, pp.33-35

The Small Farmers Development Agencies are subject to certain limitations. Firstly, since these agencies have to act within the framework of the socio-economic milieu of the rural areas, they have no scope for affecting fundamental change in the land holding pattern or tenurial conditions which determine the rural power structure. Tenants, especially those holding oral leases and share-croppers with no heritable or transferable interests in the land cultivated by them have little to gain from this scheme. Secondly, the performance of the agencies is dependent on the capacity of the local institutions, organisations and the development department to put through the programmes. Thus the pace of implementation as well performance is determined by the efficiency and involvement of the extension personnel of the local institutions. Building up of the institutions to handle the programmes for the weaker sections has been necessarily a time consuming factor. Thirdly, these agencies have to contend with the general problem of lack of integrated and detailed district planning and the programmes have a tendency to become isolated from the rest of the planning effort. This arose partly due to the fact that the Government of India were financing these agencies direct instead of the State Governments consolidating the requirements and sharing of the costs. Fourthly, since the scheme is credit oriented, the strength of the institutional credit structure and its lending policies and procedures govern, to a large extent, the selection of beneficiaries for the programme and the overall performance of the agencies. Lastly, the commitment on the part of the project staff which is crucial for the success of the scheme, may not be easily forthcoming in many cases.

## III Progress and Impact of the Programme

Despite these drawbacks, the Small Farmers Development Agency is probably a most effective institution at the district level charged solely with the responsibility of improving the economic condition of the weaker sections. The scheme was in operation in 160 districts and covered 1818 blocks in 1977-78. By the end of March 1979, the agencies had identified 163.13 lakhs small-marginal farmers and agricultural labourers as potential participants. Out of them about 70.32 lakhs were enrolled as members of the cooperatives. These Agencies had provided benefits of minor irrigation to 7.98 lakhs small and marginal farmers. Under the animal husbandry programme, the agencies covered 7.59 lakhs beneficiaries and 53.84 lakhs were covered under the programme for improved agriculture. Thus, the Small Farmers Development Agencies had by March 1979, benefited 69.41 lakhs families of small-marginal farmers and agricultural labourers. The total budgetary amount released for the schemes since its inception to March 1979 was 198.39 crores. The amount utilised during the same period was 196.33 crores. Budgetary support, however, is not the main indicator of the magnitude of the scheme. The more important indicator is the additional credit which the agencies were able to secure for the identified participants. The institutional credit for short term agricultural production, which was negligible from commercial banks and a little over one crore from the cooperatives in 1970-71, increased to Rs.7.3 crores from commercial banks and 69.7 crores from the cooperatives by March 1977-78. Medium term loans went up to Rs.112.28 crores from commercial banks and Rs.98.09 crores from cooperative banks.

Progress of Small Farmers Development Programme in India

| Item | Total No. of Families | Families belonging to SC/ST | % of SC/ST Families in Total |
|---|---|---|---|
| 1. No. of participants identified | 16,313,405 | 2,561,749 | 15.70 |
| 2. No. of identified participants enrolled as members of cooperatives | 7,032,096 | 930,871 | 13.24 |
| 3. No. of beneficiaries covered under minor irrigation programme | 798,290 | 115,135 | 14.42 |
| 4. No. of beneficiaries covered under dairying programme | 512,393 | 93,555 | 18.26 |
| 5. No. of beneficiaries covered under poultry programme | 19,308 | 3,665 | 18.98 |
| 6. No. of beneficiaries covered under other animal husbandry programme | 228,338 | 45,543 | 19.94 |
| 7. No. of beneficiaries covered under improved agricultural practices programme | 5,384,557 | 800,129 | 14.06 |

It is also significant that about one-seventh of the total credit disbursement was in the form of short term crop credit. The remaining 86 per cent was medium and long term credit for the purchase of productive assets. It cannot be over-emphasised that a small farmer programme must be an asset delivery programme rather than a mere short term relief or credit arrangement. The acquisition of new assets is more likely to yield a permanent flow of additional income to the poor and bring about a redistribution of the means of production at the margin. From this point of view the dominance of asset credit in loan disbursement was a welcome development and

needs to be maintained. Another feature of these agencies was the special attention paid to the coverage of scheduled caste and scheduled tribe populations under their programmes. Among the participants identified by March 1979 about 16 per cent belonged to the scheduled castes and scheduled tribes. Of the 25.67 lakhs scheduled castes and tribes people identified, 9.30 lakhs were enrolled as members of cooperatives, 1.15 lakhs obtained irrigation facilities, 93,555 got dairy units, 3,665 got poultry units, 45,543 other animal husbandry programmes and as many as 8 lakhs were covered under the schemes of improved agriculture. Thus, a total of 10.68 lakh schduled caste and scheduled tribe families were able to benefit through these agencies upto March 1979.

The most significant test of the success of any scheme of preferential and subsidised supply of assets and inputs to weaker sections of population is the additional net income per household generated among participants due to the additional activities undertaken by them. Some evidence about the additional income generated by the scheme for participant households was collected by the programme evaluation organisation of the Government of India. The data collected by them show that the assistance under the scheme generated an average additional annual income of Rs.1,017 per beneficiary family in 1973-74 in the 34 project areas. Minor irrigation assistance yielded Rs.1,670 and dairy assistance Rs.829 as extra income per household. These figures of increases in income are quite significant particularly because the Planning Commission's estimate of the rural poverty line in 1973-74 prices was about Rs.3,000 per household. The additional income generated through the SFDA

programmes was nearly one-third to one-half of the total income. It is also very significant to note that the income effect of agricultural and irrigation assistance was positive in 32 projects and the dairy assistance in 30 projects out of 34 surveyed.

Several other studies conducted at the mirco-level have also shown that there was a positive impact of the assistance on the incomes of the participants. The study in Mathura conducted by the Shri Ram Centre brought out that only 5 per cent of the beneficiary marginal farmers remained below the poverty line after the implementation of the scheme compared with one-third of non-beneficiary households who were below the poverty line. Two studies conducted by the Shri Ram Centre in Udaipur and Ajmer districts of Rajasthan have also shown that the income of the participants receiving assistance in the form of one milch cattle increased by Rs.804 in Udaipur and Rs.1,008 in Ajmer annually. The additional annual income of those receiving two milch cattle was estimated at Rs.1,116 for Udaipur and Rs.2,040 for Ajmer. The minor irrigation participants could increase their income by Rs.900 in Udaipur and Rs.972 in Ajmer. In the Fatehpur, Rae Bareily and Budaun districts of Uttar Pradesh also the income of those receiving one milch cattle increased by Rs.1,440, Rs.720 and Rs.1,152 per annum respectively. Those receiving assistance for minor irrigation equipment, mostly tubewells, reported an additional annual income of Rs.2,736, Rs.1,332 and Rs.2,148 respectively. Yet another study carried out at the Shri Ram Centre showed that the income of those receiving milch cattle increased by Rs.2,448 annually and those of minor irrigation participants by Rs.1,682 annually in the rural areas of Delhi. Several

other very useful micro-studies which are now available in one form or the other have also shown positive income effect of the SFDA assistance on participant households.[3]

## IV Problems and Issues

The findings of many of these studies suggest that wherever the beneficiaries of dairying and minor irrigation had access to technical and marketing facilities, they could succeed in increasing their household income from Rs.75 to Rs.300 per month. With this additional income, many of them were able to either cross or reach nearer the line of poverty. These two programmes, which combine the concepts of area development as well as target group development through creation of productive assets and infrastructure facilities seem to offer vast potential for the development of the poorer sections of rural population.

However, the SFDA experience so far has highlighted a number of problems and issues, some of which may be considered here. The first major limitation has been the extension of the coverage of the areas, population in areas covered, and programmes covered. The geographical and numerical base of the programme has to be extended to gradually cover all districts of the country from the most backward, to the not-so backward to non-backward districts. But, all the districts have to be covered if the programme has to effectively tackle the problem of poverty and unemployment.

Another important aspect linked with this is the wider coverage

[3]For further details, please see author's Small Farmers Development Programme.

of geographical areas and target population in each district where the programme is launched. Programmes like SFDA will have better chances of success only if sufficiently large and contiguous areas are covered. This may also provide better scope for the development of proper marketing and servicing facilities. And, specific programmes must correspond with the needs, equipments and skills of the target households. The experience shows that in many cases this aspect was neglected in the past resulting in very slow progress or even abandoning the schemes.

Efforts towards the extension and coverage of areas/programmes are currently being made under the programme of Integrated Area Development. The effectiveness of the extension of the Small Farmers Development Programme will, to a great measure, be influenced by our ability to merge together, or at least closely link together, all existing area development schemes into area-cum-target group oriented integrated programmes like the DPAP, CADP, HADP, TADP etc. A merger of all these programmes will reduce the multiplication of agencies and procedures and substantially reduce the cost of administering the same. According to one estimate, this was feasible within the provisions which were already available for these programmes for the Sixth Plan period (1978-83).

It has been repeatedly argued and several of our own studies have highlighted this point, that a very formidable bottleneck faced during the course of implementing the SFDA programme was non-availability of additional extension staff. The SFDA programme imposed considerable additional burden on the existing extension

staff without any additional benefits or incentives. The common experience of the project officers in-charge of the SFDA programme was that the existing staff was always pre-occupied with routine on-going activities and gave very little attention to the special schemes, and the project officers had no effective control over them to make them take on additional work-load even when the extension staff was relatively free. Strengthening of extension staff, defining priorities, and rationalisation of their responsibilities along with facilities for incentives, skill development and recognition of their good work are critically needed.

The working of commercial/cooperative banks in some cases seems to suggest that probably there is a positive shift in their attitudes towards small borrowers. But, the overall situation may still be characterised by the lack of enthusiasm on the part of their officers to help small farmers, marginal farmers and landless persons in either coming forward with worthwhile ideas or processing their applications or offering any pre- or post-lending servicing. The setting up of rural banks might have changed the situation to some extent. But the concept of the banking based on responding to the credit needs of the people only when they have got (i) a feasible scheme completed with all exercises and documentation, (ii) adequate security of assets or land, and (iii) guarantees of repayment at regular intervals on his own cannot be expected to sustain SFDA type programmes where the target group consists of very small, poor, uneducated borrowers who neither have the skill to work out feasible schemes, nor the capacity and time to keep chasing their applications for months, nor land to offer as security insisted by the lending

institutions. One has to only see the style of functioning of the bank officers, including their field officers, to understand how passive and unaware they are of the needs and problems of their small rural borrowers. All this in spite of the clarifications and guidelines issued to them repeatedly as how to help their poor clients.

Absence of required marketing, servicing and other infrastructural facilities has been another major problem faced in the effective implementation of the SFDA schemes. Obviously, we cannot expect dairying to be run on commercial lines without adequate facilities for collection, chilling and selling of milk of the beneficiaries on the one hand, and the provision of veterinary services on the other. Unfortunately, we are seriously lacking in these matters. Likewise, the beneficiaries covered under agricultural implements and irrigation programmes need to be provided with easy to reach, quick and less expensive servicing centres for their instruments when these breakdown or need replacement of parts. How long can a small farmer be expected to take his machines for servicing to places far away from his village only to get poor attention at high cost? Facilities for repairing machines and offering other services needed by the small farmers, marginal farmers, agricultural labourers and artisans need to be developed before they start needing them. Otherwise, as we know, failures and difficulties experienced by some beneficiaries are likely to have a negative effect upon others who may prefer to keep themselves away from the schemes which are supposed to be devised for their development.

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8

# ALTERNATIVE DEVELOPMENT STRATEGY
# FOR
# DEVELOPMENT OF AGRICULTURE

Pradhan H. Prasad

A period of three decades of developmental planning is over. It is believed that India has progressed during these years. The long-term rate of growth of per capita income has been estimated to be a little less than 1.5 per cent per annum. The saving rate seems to have risen considerably. Some experts even venture to suggest that "we are now self-sufficient in foodgrains".[1] What is not realised is that the growth of per capita income has not only been dismally low, but has been decelerating. The following table clearly indicates contrary to the popular belief that we are infact, approaching the pre-independence senario of almost an stagnant economy.

| | Average annual rate of increase (per cent) | | |
|---|---|---|---|
| | 1950-51 to 1960-61 | 1960-61 to 1970-71 | 1970-71 to 1979-80 |
| 1. Per capita real income | 1.9 | 1.5 | 0.8 |
| 2. Agriculture Production | 4.0 | 2.5 | 1.4 |
| 3. Foodgrains Production | 4.1 | 2.8 | 0.6 |
| 4. Industrial Production (relates to calender year) | 7.4 | 6.3 | 4.7 |

The rise in saving ratio also looses much of its significance because there has been a steep rise in capital-output ratio suggesting not only low and inefficient use of capacity and resources but also rising cost of technological innovations controlled by imperialism. The thesis of self-sufficiency of foodgrains also does not hold much water when viewed against the evidence that the percentage of population below poverty line has not declined. At least half of the country's population, if not more, continues to remain below the normative minimum.

We are facing an ever rising inflation. Annual average rate of rise in prices in fifties was a little less than 2 per cent, in sixties it went beyond 6 per cent and in seventies it went well above 9 per cent. The backlog of unemployment has increased beyond four times leading to mass discontent and fast increasing vagarant population.

The failure of India to come to grips with the aforesaid problems lies in its wrong approach to developmental planning. It was "scarcity of capital" which was regarded as the main reason for poverty and unemployment. Therefore, the objective of growth of capital figured much more prominantly than anything else in India's planning models. Employment creation and erradication of poverty were looked upon merely as byproduct of growth of capital. The planners did not take note of the fact that there was scope for rapid and massive increase in gainful employment in agriculture sector alone. They also failed to realise the extent of damage which is being perpetuated because of structural violence. Therefore, what went wrong with Indian planning was not its emphasis on heavy industries, or huge public investment in capital goods or the policy of development of industrial capitalism under state patronage, but its failure to bring rural India effectively under the fold of a massive development effort. and do away with structural violence. And it is this failure which has brought about the teeming millions to their fated poverty and youths to their frustration, parochialism and organised violence.

Our inadequate pace of industrialisation and demographic perspective clearly indicate that there is no possibility of net transfer of labour from agriculture. It is also evident that while availability of resources, infra-structural facilities and other promotional measures by the state may provide the necessary condition for industrialisation, the

sufficient condition for rapid, sustained and healthy industrialisation (in a big country like ours) is obtained only in terms of massive domestic demand for mass consumption goods. In a situation where large bulk of the population is dependent on agriculture, rapid development of agriculture alone can create the above mentioned sufficient condition. Hariyana-Punjab sector is a recent example of this model of development. Absence of surpluses of food and agricultural raw material is also a severe constraint in the context of industrial growth. Therefore, the lasting and over all development of this country lies in rapid development of agriculture.

It is needless to emphasise that agriculture itself can be a prosperous economic activity. Sufficient rural affluence can be achieved by rapid agricultural development. The per acre employment in agriculture in Japan is atleast three times more than in India. If, therefore, we are able to pull up our agriculture rapidly to a level which is even half as developed as Japan, we would land ourselves in an era of over-full-employment and a much higher rate of development and level of income than has been achieved so far.

The three decades of agricultural growth can be broadly divided into two phases. The first phase of growth was based mainly on expansion in net cropped area which almost got exhausted with the fifties. Thereafter, the future growth came essentially through the use of fertilisers, pesticides, hybrid seeds, improved tools and machinery-- herein after termed as the New Technology. The latter phase coincided with the lower agricultural production than that was achieved in the earlier phase. Moreover, the New Technology is effectively concentrated in the irrigated areas and assured rainfall regions. It is, therefore, not surprising that regional imbalances in agricultural production and income inequality in rural India increased with the passage of time.

There are evidences to suggest that the New Technology has at some place weakened the stranglehold of the semi-feudal production relations in Indian agriculture[2]-- thereby reducing this aspect of structural violence. But it has also at the same time increased our technological dependence on rich nations and the multinationals. The nations, specially the poor ones, who came late in the race of adopting the New Technology do not have the advantage of those who adopted it early and have planned technological diversifications because of being aware of its long-term implications. They could do it not only because they were ahead in the race but also because they were rich. For example Phalaris minor infestation which were first recorded during Rabi 1962 and in wheat area saturated with Mexican varieties have now grown to a level which seriously threatens national targets of wheat production. Punjab which is now perhaps the worst victim of this have suffered heavy losses in the wheat production. Depending upon the intensity of weed population, the losses to the wheat crop ranged from 15 to 80 per cent. The menace is not so severe in other wheat areas at present but it is likely to develope in intensity as time rolls on. The only effective measure against it at this high level of infestation, is chemical control, but it is very costly. It is costly because the chemicals can only be obtained through imports. There are many such examples where the in-buil limitations of the technology (which is often unwillingly adopt by us) necessiates adoption of different set of innovations to rectity the earlier lacuna. Since the entire process is controlled and thrust by multinationals- imperialist axis, one is faced with a never ending chase of innovations not for improvement but for salvage operations. There are evidences to suggest that increasing agricultural production is being obtained by increasing introduction of sophistications in the New Technology such as raising seed standards, sophisticated

mechanical devices for sowing and ever increasing application of fertilisers, pesticides, herbicides and weedicides often related to salvage operations which is not only costly but also involves massive transfer of resources outside the country and leads to increasing dependence on rich nations and multinationals. Therefore the New Technology puts us more firmly in the grip of another type of structural violence -- Neo-colonialism. This also adds a new dimension to our inflationary trend.

Expansion of area under irrigation has also contributed to the growth of agricultural production. But since the expansion has not been much its overall impact has not been as impressive as that of the New Technology. Only 7 per cent has been added to the existing 17.6 per cent of the area under irrigation during the thirty years of developmental planning. However, in the areas where this expansion has taken place, the impact is no less impressive. "Taking all the growth rate categories together, we find that as many as 26 districts moved up from the low productivity category to the medium productivity category because of high rates of growth. It is important to note the spatial distribution of these 25 districts (see Table 10). Seven of them belong to Madhya Pradesh (Narsimhapur, Bhind, Indore, Morena, Shajapur, Tikamgarh and Surguja), 5 to Rajasthan (Alwar, Bharatpur, Bundi, Chittorgarh and Ganganagar), 4 to Karnataka (Bidar, Chitradurga, Raichur and Tumkur) 4 to Gujarat (Ahmedabad, Jamnagar, Mehsana and Bhavnagar), 4 to Uttar Pradesh (Jalaun, Banda, Hamirpur and Rae Bareli) and one each to Jammu and Kashmir (Jammu) and Haryana (Gurgaon). These are by and large the erstwhile dry districts to which irrigation came in a big way during the period".[3] The expansion of irrigation also generates much more employment than the New Technology. "In brief, the increase in employment is about 100 per cent

per hectare when the technique changes from the traditional unirrigated to traditional irrigated but it is only 33 to 62 per cent when the modern technique replaces the tradition irrigated".[4] Thus, it will be seen that this technology is much less inequitous than the New Technology. There is no evidence to suggest that a change from traditional unirrigat to traditional irrigated has accentuated inequality. In some areas, evidences suggest that it has also catered to social justice. Like the New Technology, this also leads to weakeni of semi-feudal production relations in certain regions. This is a technology is not new in the Indian context. It, theref does not necessarily leads to technological dependence. Henc unlike the New Technology it reduces the structural violence. There is enough scope for increasing area undeß irrigation. The irrigated area available so far has been only about half of the ultimate feasible potential. The irrigation-expansion technology, if pursued vigourously, can bring rural India effectively under the fold of a massive development effort and dynamise Indian agriculture in a big way. Even then we went whole hog with the New Technology to the utter neglect of the irrigation-expansion technology. We have now to tilt the balance heavily in favour of the irrigation-expansion technology. It will also hasten the process of disintegration of outmoded 'semi-feudal' agrarian set-up and consequent rapid agricultural development which is in offing in vast areas of the rural India. This be supplemented with a relentless effort to implement land reform measures. We can not get rid of the New Technology. It is neither desirable nor possible. But there is absolutely no need to subsidise the New Technology. Though we are caught up in a syndrom where it may not be possible to withdraw the entire subsidy all at once,[5] it should be progressively withdrawn and resources

may be diverted to the irrigation-expansion technology. We have little option but to break the fetters of the dependency-imperialism paradigm.

## FOOTNOTES

1. Hanumantha Rao, C. H., "The Sixth Plan Framework - An Assessment", Yojna 16-31 December, 1980.
2. Prasad, Pradhan H., "Poverty and Bondage", "Caste and Class in Bihar" and "Rising Middle Peasantry in North India" in Economic and Political Weekly, Special Number August 1976, Annual Number February 1979 and Annual Number February 1980 respectively.
3. Bhalla, G. S. and Alagh, Y. K., (1979), Performance of Indian Agriculture, p. 36.
4. ICSSR, (1980), Alternatives in Agricultural Development, pp 21-22.
5. For example, we have at present no option but to allow sizable import of weedicides exempting them from total custom duty.